FINANCIAL TIMES

EU enlargement
Spain wary of poor hopefuls
Page 4

Russian reform
The humiliation of Chubais
Page 2

Jobs summit
Radical action off the agenda
Martin Wolf, Page 16

Today's surveys
Germany; North American Business Locations
Separate sections

World Business Newspaper http://www.FT.com TUESDAY NOVEMBER 18 1997

WORLD NEWS

Britain may be allowed limited role in Emu founders' forum

France and Germany signalled yesterday that Britain might be allowed a limited role in a new forum made up of founder-members of European economic and monetary union. But the UK and other countries likely to remain outside the single currency were warned they had no guaranteed seat at the table. Page 18; Euro and equities, Page 3; Spain to fight, Page 4

Russia seeks end to crisis
Russia intensified efforts to defuse the conflict with Iraq over UN arms inspectors as UN commissioners prepared to hold an emergency meeting on the crisis. Page 5

Minister's fall predicted
Financiers are still trying to unseat Russia's first deputy prime minister, Anatoly Chubais, a leading Russian banker said, predicting that he would be sacked within a month. Page 2

Left triumphs in Italian polls
Italy's ruling centre-left coalition won landslide victories in regional elections, reviving doubts about Silvio Berlusconi's opposition leadership. Page 3

Northern Ireland weapons
London and Dublin moved to put aside the issue of Northern Ireland weapons "decommissioning", anxious not to disturb negotiations at a time of uncertainty about the Irish Republican Army's ceasefire. Page 12

Netanyahu faces revolt
Israeli prime minister Benjamin Netanyahu faces a rebellion by senior Likud members who are rallying support to wrest the party from his control. Page 5

Abacha sacks cabinet
Nigeria's military ruler, General Sani Abacha, said he had dismissed his cabinet and would release some detainees. Page 5

Winnie aims for ANC job
Winnie Mandela launched her bid to become deputy president of South Africa's ruling African National Congress by attacking party leaders. Page 5

Tower collapse kills 6
Six people died and 30 were injured when a water tower collapsed in Melilla, a small Spanish-ruled enclave in Morocco.

Clashes in Athens
Greek riot police clashed with youths in Athens as demonstrators commemorated a bloody student uprising in 1973 against Greece's then-military junta.

UK premier to visit Japan
British prime minister Tony Blair is to visit Japan in January – the first visit there by a UK leader for four years.

Fairytale discovery
A Danish schoolgirl studying 19th century fairytale writer Hans Christian Andersen has unearthed a hitherto unknown poem by the author. The 1836 poem was written to a great-grandmother of the schoolgirl.

Air Liquide America
French-owned industrial and medical gas producer Air Liquide America made clear yesterday that its US operations had already met the Food and Drug Administration certification requirements for instrument analysers to test medical gases and were not therefore facing temporary closure as a result of a legal injunction, as reported in yesterday's Financial Times. The injunction had followed inspections by the FDA after deaths at a hospital supplied with oxygen by Air Liquide. The deaths were found to have been from natural causes.

BUSINESS NEWS

Allianz makes takeover offer for French insurer AGF

Allianz, the German insurer, last night announced a takeover offer for AGF, the French insurer, rivalling a bid by Italy's Generali. The French bourse regulator, the CMF, said the Allianz offer was valued at FFr320 a share. AGF shares would be suspended while Allianz's offer was being cleared by bourse authorities, the CMF added.

London International Financial Futures and Options Exchange is trying to attract French traders to London, in an attempt to increase its share of the European derivatives market before the introduction of the single currency. Page 19

British Airways announced plans to launch a European airline offering reduced in-flight service and lower fares than regular BA routes. Page 19; Lex, Page 18; Editorial Comment, Page 17

Eletrobrás, Brazil's federal power company, plans to issue a $5bn asset-backed bond in what would be Latin America's largest debt securitisation so far. Page 18

Cuba's economy, bolstered by tourism and foreign investment, will grow by about 2.5 per cent this year. Page 6

PepsiCo is to acquire the Australian and French snack subsidiaries of United Biscuits in a move that will consolidate its dominance of this business globally. Page 19; Lex, Page 18

Singapore is likely to increase the number of seats it offers to foreign brokerage houses on the Stock Exchange of Singapore and allow foreign participation in share offerings of state-run companies. Page 8

Telstra shares rose sharply when trading began in Australia's biggest privatisation. Page 19

China has indicated support for an Asian currency stabilisation fund. Page 6

Union Pacific, the biggest US railway company, warned that it could make a substantial loss in the fourth quarter. Page 21

Thailand's leading bank, construction and record companies announced poor quarterly results. Page 22

Germany's biggest employers' union put forward proposals for reforming the country's rigid wage bargaining system. Page 3

Argentina was due to sign a letter of intent for a three-year $3bn extended fund facility with the IMF. Page 6

Dow Jones, the US business information company, is believed to be close to an agreement with General Electric that would link the two groups' international television interests. Page 21

Itochu, one of Japan's top five trading companies, is to dispose of or write off Y230bn ($1.81bn) worth of non-performing assets. Page 19

Germany's leading banks expressed confidence that the government would encourage the setting up of "Anglo-Saxon"-type pension funds. Page 2

Lord Moyne, chairman of Swedish investment company Trustor, took out a two-day loan of SKr415m ($55.1m) from a Cayman Islands bank to repay funds missing from the company. Page 20

Dominion Textile, Canadian producer of textiles and non-woven goods, said it would accept a revised C$595m (US$421m) cash takeover offer by US rival Polymer Group. Page 21

Nikkei surges as Japan acts on economic problems

By Gillian Tett and Bethan Hutton in Tokyo

Japan's stock market staged one of its largest one-day rises yesterday, reflecting hopes that the government was finally tackling the country's mounting economic and financial problems.

The Nikkei 225 average shot up 7.96 per cent to close at 16,283.32, the fourth-largest rise in percentage terms recorded in Japan during one day's trading. The yen also rallied, up in Asian trade from an intra-day low of Y126.8 to Y124.22 against the dollar.

The surge was partly triggered by news that Hokkaido Takushoku, the tenth-largest commercial bank, was to go out of business after collapsing under Y934.7bn in bad loans.

This is the first failure of one of the top 20 banks in Japan, where the authorities have always strongly protected the financial sector.

It boosted hopes that the government was at last taking drastic action to reform the financial sector before its planned "Big Bang" deregulation next year.

The stock market rally was also triggered by signs that the US was stepping up pressure on the Japanese government to take more steps to boost the country's flagging economy.

The Japanese government will unveil another package of economic measures today, but it is likely to be limited to pledges of reforms, notably deregulation of some sectors.

The government has been insisting that it cannot afford large tax cuts or higher public spending measures to boost the economy, which has been depressed by a controversial rise in consumption tax that came into effect last April.

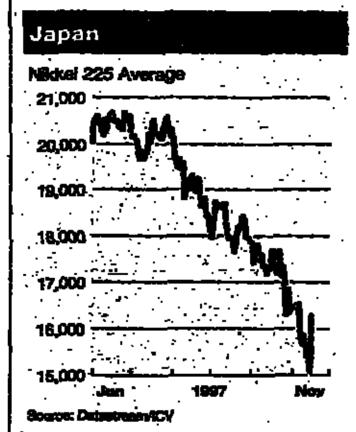
But Larry Summers, US deputy treasury secretary, yesterday met Hiroshi Mitsuzuka, Japan's finance minister, to express growing US unease about the Japanese economy. Mr Summers was understood to have called on the Japanese government to consider tax cuts. He also expressed concern about the yen's previous rapid depreciation.

The Bank of Japan yesterday said the failure of Hokkaido Takushoku – also known as Takugin – which is based in Sapporo in the northern island of Hokkaido, would not require any fresh injection of public funds. The finance needed to repay depositors in full would be supplied by an industry insurance scheme and unsecured loans from the Bank of Japan.

Takugin's Hokkaido-based operations will be transferred to North Pacific Bank, a medium-sized regional bank also based in Sapporo, and a buyer will be sought for its operations elsewhere in Japan.

Masaya Miyoshi, president of the Keizai Koho Centre, the social and economic think-tank of the Keidanren business federation, said in London yesterday that the country was suffering from systemic fatigue. "The system which has given birth to an iron web of vested interests has also provided its full protection to losers in the market who should have been weeded out long ago," Mr Miyoshi said.

Reports, Page 8; Back from the brink, Editorial comment, Observer, Page 17; Bank of Korea abandons won, Lex, Page 18; Itochu to write off $1.8bn assets, Page 19



Hijackers die in battle with police

A tourist wounded in the attack is carried by stretcher to be taken to hospital by helicopter Picture: AP

Gunmen kill 57 tourists in temple ambush near Luxor

By Mark Huband in Cairo

Egypt's government was last night in shock after 57 foreign tourists were massacred in a three-hour attack by up to 11 gunmen who ambushed two buses taking them to a ruined temple near the southern city of Luxor.

It was the worst single attack on foreigners since militant groups launched an armed campaign against the government in 1992. Four Egyptians are also thought to have been killed. No group has claimed responsibility.

Interior ministry officials said the gunmen lay in wait for the tourists in the ruins of the Deir al-Bahri temple. A bus full of Japanese tourists was hijacked by the gunmen, who then opened fire and killed all those inside.

A second bus carrying French and German tourists was then stopped and driven for two kilometres before all the passengers were slaughtered, the security forces said.

Official figures put the number of injured at 24, of whom 16 were foreigners. All the gunmen were reported killed by police in a battle following the attacks.

"We are in shock. It was completely unforeseen, and is very serious. The government is in shock, though the good thing is that all the attackers were themselves killed," a senior government minister said yesterday.

President Hosni Mubarak and Hassan al-Alfi, the interior minister and architect of the government's hardline policy aimed at eradicating the militant organisations, yesterday flew separately to Luxor, where a curfew has been imposed.

Mamdouh el-Beltagi, Egypt's tourist minister, told reporters at a London travel fair that he felt "extremely sad for this accident and this cowards' crime committed against our guests and Egyptians as well".

The Foreign Office advised tourists to stay out of Luxor, and the Nordic region's main travel agent for Egypt said it had cancelled all trips and was bringing back customers on holiday there.

The attack comes six months after the Gama'a al-Islamiyya, Egypt's main armed militant organisation, declared a unilateral truce in its five-year conflict with the government. Before yesterday's attack, 34 foreigners and 1,100 Egyptians had been killed.

European fund managers were yesterday inundated by inquiries from investors concerned that the current tourist high season would be left in ruins by the attack. Government figures released yesterday show 3.5m people have visited Egypt so far this year, up from 3.2m in 1996. Income from tourism reached $3bn in 1995-96, and was expected to reach $3.7bn this year.

The economic impact of single attacks is viewed by bankers and fund managers as limited. A leading Cairo fund manager said yesterday: "It might affect tourism for the short run, but I don't think it affects the fundamentals of the country. Overall there is no change, because these militants can't destabilise the government. Meanwhile, there is simply no way of preventing incidents of this kind."

Shell and BP invest in Russian joint ventures

by Chrystia Freeland in Moscow and Arkady Ostrovsky and Virginia Marsh and in London

Russia yesterday received a long-awaited infection of foreign investment as Royal Dutch/Shell announced a strategic alliance with Gazprom, Russia's natural gas behemoth, and British Petroleum teamed up with oil company Sidanco.

The alliances give Shell and BP access to the country's tremendous fossil fuel reserves and a strategic position in conquering new markets in Turkey and Asia.

The two teams are already preparing to go head to head-in rival bids for Rosneft, the largest Russian oil company still to be privatised. Salomon Brothers has valued Rosneft at $1.4bn but intense competition could push the price much higher in the three rounds of sales, due to begin this year and be concluded by the middle of 1998.

The partnerships draw Shell and BP into the byzantine game of Russian politics, allied to two domestic groups which are locked in a fierce rivalry.

Gazprom is intimately connected to Victor Chernomyrdin, Russia's centrist prime minister. The Gazprom-Chernomyrdin

Continued on Page 18
Kazakhstan deal, Page 7

Markets

STOCK MARKET INDICES		
New York: lunchtime		
Dow Jones Ind Av	7707.79	(135.31)
NASDAQ Composite	1615.44	(+31.93)
Europe and Far East		
CAC40	2772.99	(+76.95)
DAX	3794.61	(+83.67)
FTSE 100	4967.0	(+125.2)
Nikkei	16,283.32	(+1200.80)
US LUNCHTIME RATES		
Federal Funds	5¾%	
3-mth Treas Bills: Yld	5.310%	
Long Bond	100⅛	
Yield	6.110%	
OTHER RATES		
UK: 3-mo Interbank	7¾%	(same)
UK: 10 yr Gilt	104.5313	(104.561)
France: 10 yr OAT	99.33	(same)
Germany: 10 yr Bond	103.0	(same)
Japan: 10 yr JGB	109.090	(109.04)
NORTH SEA OIL (Argus)		
Brent Dated	$19.35	(20.13)

GOLD		
New York Comex		
(Nov)	$304.1	(303.7)
London:		
	$303.85	(302.45)
EXCHANGE RATES		
Dollar		
New York: lunchtime		
£	1.69415	
DM	1.73275	
FFr	5.804	
SFr	1.40935	
Y	125.635	
London:		
£	1.6929	(1.6951)
DM	1.7336	(1.7308)
FFr	5.8050	(5.7964)
SFr	1.4099	(1.4025)
Y	125.77	(127.075)
Tokyo close		Y 126.23
Sterling		
DM	2.9347	(2.9339)

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Inside

Windsor Castle's restoration: triumph on a massive scale

Russia's deputy PM will be sacked within a month, his opponents predict

Chubais under fire in parliament

By Chrystia Freeland and Charles Clover in Moscow

A leading Russian banker said yesterday Moscow financiers were continuing efforts to unseat Anatoly Chubais, Russia's embattled first deputy prime minister, and predicted he would be sacked within a month.

The continued attack was waged more publicly in the Russian parliament, where the dominant Communist faction yesterday warned that it would refuse even to consider the draft 1998 budget until Mr Chubais had been dismissed.

Three of Mr Chubais's closest allies were sacked over the weekend and the minister himself was severely weakened after revelations of a lucrative book deal provoked the wrath of President Boris Yeltsin.

Behind the scenes, the lobbying of some of Russia's leading financial groups, who accuse Mr Chubais of favouring one of their competitors, is believed to have been instrumental in the president's decision to sack members of the Chubais team.

Over the weekend, Mr Yeltsin rejected Mr Chubais's own offer to resign and the cabinet purge appeared to be over. But, speaking anonymously, a member of the banking coalition which has been seeking Mr Chubais's removal said the deputy prime minister was still likely to be dismissed within the next two or three weeks.

He said the book deal, in which Mr Chubais and four of his allies received $450,000 for a book on the history of privatisation, had infuriated the president and permanently tarnished Mr Chubais in his eyes. The controversial book's publisher is owned by Oneximbank, the Russian financial group Mr Chubais has been accused of unfairly assisting.

The banker said Mr Chubais had kept his job over the weekend only to buy time as the Kremlin searched for a qualified replacement. Political analysts said two of the figures being considered as potential successors were Grigory Yavlinsky, head of Yabloko, the liberal opposition party, and Alexander Shokhin, leader of the pro-government faction in parliament.

Both men have solid reputations as committed supporters of further market reforms. But even so, ousting Mr Chubais, who masterminded Russia's mass privatisation and is seen by the west as a guarantor of Russian market reforms, would risk unsettling already jittery foreign investors. Many observers, particularly abroad, believe he is irreplaceable.

But such objections may be insufficient to calm the passions of Russia's leftist parliamentarians, who have long loathed Mr Chubais and now smell blood.

"The leftwing opposition refuses to discuss the budget until the president accepts Chubais's resignation," Nikolai Kharitonov, the leader of the Agrarian faction in parliament, said.

Even Mr Shokhin, a reformer who has worked closely with Mr Chubais, warned that parliamentary animosity towards him could stall passage of the budget and even lead to a vote of no confidence in the government.

Women street cleaners clear away the early winter snow near the Kremlin in Moscow AP

CAP payments 'out of touch' with market

By Michael Smith in Brussels

European beef and cereal producers have been heavily over-compensated as a result of a restructuring of the Common Agricultural Policy, according to a report by the EU court of auditors to be published this morning.

The report says that aid for reductions in support prices for cereals is out of touch with world market prices, leading to over-compensation of Ecu3bn ($3.4bn) in 1995-6 alone. Over-compensation for beef farmers is put at more than Ecu800m between 1992 and 1996.

The conclusions are part of a wider report on financial management within the European Union. It is expected to be critical of internal accounting within the European Commission and the management of structural funds which provide aid for poorer regions.

The CAP accounts for nearly half of the EU's annual budget and is subjected to intense scrutiny.

Today's report, revealed in Agra Facts, a Brussels newsletter, coincides with a meeting of agriculture ministers in Brussels at which further CAP reform, including price cuts and compensatory payments, are high on the agenda.

Franz Fischler, farm commissioner, hopes to be able to agree a common position on the reforms to present to the EU summit next month. However a draft position paper, drawn up by the Luxembourg presidency and discussed by farm ministers yesterday, was vague in detail and there are still wide differences between individual countries on how the reforms should be implemented, if at all.

Mr Louis Le Pensec, French agriculture minister, indicated that his country was broadly in favour of reform but was opposed to milk price cuts if the milk quota system remained. Germany, Belgium and Ireland want price cuts to be fully compensated, as they believe the Commission's proposals could lead to income reductions for cereal farmers.

Yesterday's discussions also focused on proposals for putting a ceiling on payments to individual farmers. The UK is among the strongest opponents of ceilings.

The European Commission is today expected to back measures to ease tension with the US over the EU's proposed ban on the imports of specified cattle derivatives from the start of next year.

There will be exemptions from the ban for products included in life-saving medicines. In addition the Commission will back a proposal from Mr Fischler to waive the ban for products manufactured before January 1 1998. The Commission is also planning "transition periods" of up to 18 months to allow the importation of some cosmetics and pharmaceutical products even if they contain so-called "specified risk materials".

The ban is being introduced as part of the European Union's fight against BSE – "mad cow disease". However, the Commission's measures today will fall short of US demands, since the US wants to be declared officially BSE-free by the EU.

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Hungary presses ahead with Nato application

By Anatol Lieven in Budapest

Hungary is expected to present a letter of intent to join Nato later this week, after an overwhelming vote in favour of joining the organisation in a referendum on Sunday.

The vote, welcomed by both Hungarian and Nato officials, is likely to have a positive influence on the US Senate which, along with other legislatures, has to ratify the accession of new members.

Some 85 per cent of Hungarians who participated in the referendum voted in favour of Nato membership, on a 49 per cent turnout. The result, said Nato secretary-general Javier Solana, demonstrated "broad support among the Hungarian people for membership".

Gyula Horn, the prime minister, said the nation had "passed a test of political responsibility", adding: "The fact that all the parliamentary parties, trades unions and churches lined up behind accession, signals a new era in Hungarian politics".

But the same unanimity among the political establishment and the media infuriated opponents of Nato membership. The pacifist Alba Circle has brought a court case against the foreign ministry for allegedly breaking the law on funding of television for political ends. Its leader, Tamas Csapody, has also accused the Catholic church of allowing its bishops to become involved in pro-Nato propaganda, against the church's own rules.

However, the vote was welcomed by Hungary's neighbour Romania, where a foreign ministry spokesman hailed it as "a reason for joy and a good signal".

In private, however, many Romanians remain distressed that Hungary has overtaken them in the Nato accession procedure. A Romanian foreign ministry official said: "We hope for a favourable outcome in 1999".

Germany may get pension funds

By Andrew Fisher in Frankfurt and Jane Martinson in London

Germany's leading banks expressed confidence yesterday that the government would act shortly to encourage the setting up of "Anglo-Saxon"-type pension funds.

This would ease the strain on the state system and boost Germany's domestic capital market, thus helping companies raise equity to finance investment and job creation.

Martin Kohlhaussen, president of the German private sector banking association, hoped that steps could be taken before the next general election in September 1998 to put pension funds on the same legal footing as other forms of corporate retirement provision.

Meanwhile, in a report to be published in London today, the UK's National Association of Pension Funds has called for state pensions in the single European market to be limited to half of national average earnings.

The NAPF's submission to the European Commission's green paper on supplementary pensions would, if adopted, result in a significant reduction in state pensions for certain European states, including France, Italy, Portugal and Spain.

Some European countries provide pensions worth 80 per cent of the national average wage. In the UK, which has Europe's largest funded pension system, the state pension is worth just 24 per cent of the average wage.

The NAPF, which represents leading institutional investors managing funds worth about £650bn ($1,098bn) in total, believes that a compulsory secondary pension should be introduced to top up the average pension to three-quarters of final salary.

Ray Martin, chairman of the NAPF's international standing group, said that it hoped its European counterparts had "recognised that this is now a big issue and that these problems need to be addressed now".

In Frankfurt, Mr Kohlhaussen said the state pension crisis had led to cross-party agreement that independently managed funds along "Anglo-Saxon" lines should be widely introduced. At present, they are at a tax disadvantage compared with internal schemes run by German companies

According to Deutsche Morgan Grenfell, German pension funds are equivalent to 5.5 per cent of gross domestic product, far lower than in Switzerland (87 per cent), the UK (93 per cent), the Netherlands (89 per cent) and the US (57 per cent).

Mr Kohlhaussen, who is chairman of Commerzbank, said pension funds which invest heavily in the stock market for attractive long-term returns would strengthen the German economy's growth potential and help the labour market.

Manfred Weber, general manager of the banking association, said recent political hearings in Bonn had heightened optimism that the government was ready to look favourably on the establishment of pension funds.

هكذا من الأصل

Left landslide in Italian regional polls

By James Blitz in Rome

Italy's ruling centre-left coalition yesterday secured landslide victories in regional elections across the country, raising new doubts about Silvio Berlusconi's leadership of the rightwing opposition.

In a result that underpins the dominance of Romano Prodi's Olive Tree coalition in Italian politics, centre-left candidates retained the position of mayor in three big cities – Rome, Venice and Naples – with crushing victories that looked set to be repeated across the country.

The contests were the biggest electoral test for the Prodi government since it came to power last year.

The margin of victory for many centre-left candidates – most of whom were running with the backing of Italy's neo-Communists – was far greater than most pundits had expected and underlined the extent to which centre-right politicians are seen by many Italians as divided, with some of them also shrouded in corruption allegations.

Although counting was continuing last night, Antonio Bassolino looked likely to be returned as the centre-left mayor of Naples with 74 per cent of the vote, against 14 per cent for his right-wing opponent. In Rome, the government coalition's candidate, Francesco Rutelli, received 60 per cent of the vote, and in Venice it won 63 per cent.

Elsewhere, the centre-left appeared to be ahead in many of the elections to local councils that also took place on Sunday.

For the mayors of Rome, Venice and Naples – cities which together accounted for more than half of the 10m votes cast on Sunday – yesterday's result will remove the need to contest the second ballot of the election in two weeks, since each secured more than 50 per cent of the vote.

But the margin of the victory could also prove significant in the long term, as many Italians believe the centre-left mayors are emerging as a powerful force in their own right in the country's political system.

They are expected, in particular, to demand more autonomy and independent finance for themselves and their regions as part of parliament's grand review of Italy's constitutional system.

As far as the centre-right is concerned, the election result will trigger immediate soul-searching and questions about whether Mr Berlusconi can continue as its leader. The Milan daily, Corriere della Sera, said yesterday the result would trigger the "worrying prospect of a rapid and uncontrollable political agony".

Centre-left politicians, including Massimo Cacciari, the victor in Venice, also expressed concern about the scale of the defeat for Forza Italia and its ally, Alleanza Nazionale, suggesting Italy needed an effective opposition to work as a democracy.

However, Mr Berlusconi is not thought likely to be forced out in the immediate future. One factor in his favour is that the centre-right coalition cannot find a suitable alternative candidate to lead the opposition grouping in parliament.

Supporters congratulate Francesco Rutelli, the centre-left coalition's candidate for mayor of Rome, who won 60 per cent of the vote in Sunday's election Reuters

German push for labour flexibility

By Graham Bowley in Frankfurt

Germany's biggest employers' union yesterday put forward proposals for reforming the country's rigid wage bargaining system in an effort to cut companies' labour costs and improve working flexibility.

Gesamtmetall, the engineering employers' federation, called for a new system for working hours, more use of profit-related pay, special treatment for loss-making companies, and a shake-up of wage policy in eastern Germany.

The proposals underline the pressures building at a time of record unemployment to allow more flexibility in Germany's collective sector-wide wage bargaining system.

In a further concession towards flexibility, Gesamtmetall and the engineering workers union last night resolved a long-running disagreement over early retirement.

German companies, which face some of the highest labour costs in Europe, blame the strict rules governing the workplace for putting them at a disadvantage at a time of increasing globalisation and rising competitive pressures.

Werner Stumpfe, Gesamtmetall's president, said: "The reform is necessary because the present wage agreements are much too narrow a corset for companies, and they need greater freedom."

The proposals throw down the gauntlet to IG Metall, which represents engineering workers and is one of Germany's most powerful unions. IG Metall is set to put forward its own ideas for improving the wage bargaining system later this week.

Unions want to retain traditional collective working arrangements, but have come under increasing pressure to make concessions. IG Metall declined yesterday to comment.

Gesamtmetall called for the fixed working week to be abolished in favour of an arrangement in which companies could vary working time between limits of 30 and 40 hours a week, depending on business demand. It proposed that a special clause should be introduced into wage agreements so that a loss-making company could increase working hours without a full increase in salaries.

The employers' federation said that some benefits such as Christmas bonuses should be linked more directly to a company's profit performance. Finally, it called for an overhaul of the wage system in eastern Germany in an effort to cut labour costs for east German business.

Gesamtmetall's proposals come when Germany's engineering industry is beginning to grow after several years of stagnation, which is likely to trigger a call from unions for pay increases.

Swedish boost for research on environment

By Tim Burt in Stockholm

A group of international property developers is planning to build what is claimed to be the world's first environmental science park in Sweden in a SKr3.2bn ($425m) project to stimulate research into environmentally friendly technology.

The scheme, backed by some of Sweden's leading industrial companies and universities, is expected to house and employ more than 7,000 people when completed in 2005.

The Anglo-Swedish developers, Windborne International, have teamed up with Skanska, Sweden's largest construction company, to build what they describe as a "unique environmental suburb" on the outskirts of Stockholm. Work on the first phase of the park is due to begin next year.

The plan follows four years of studies in which the developers considered sites elsewhere in Europe and North America.

Although the scheme already has detailed planning permission and the backing of companies such as Telia, the Swedish state telecommunications group, and Incentive, the industrial arm of the Wallenberg business empire, it will only be unveiled publicly this week.

At the heart of the project is a plan to bring together scientists developing environmental technology with venture capitalists and large industrial companies.

Initially, the park will concentrate on research into sustainable power, waste management and water treatment. But the developers say it could also provide an international showcase for the latest "green" construction techniques, which will be used to build homes for 2,500 residents in the Stockholm suburb of Sollentuna.

"It has the potential to create a unique forum for industry, academic institutions, governmental agencies and financial institutions to collaborate on sustainable development and technology," said Per Grunewald, vice-president of environmental affairs at Electrolux, the Swedish white goods manufacturer, which is backing the scheme.

Some industrial companies have hinted that they could farm out some research and development functions to the park, which will include a transfer technology centre to introduce university researchers to financiers and industrialists.

Robert Windborne-Brown, chairman of Windborne International, says the Stockholm Environmental Science Park – as it will be known – could become a hub for satellite science parks in other countries.

"We would consider developing smaller sites in other parts of the world, linked together by the global communications centre planned here," he added.

This centre – to be jointly developed by Telia and the telecommunications group Ericsson – has been designed to include "virtual reality conferencing", enabling executives in different parts of the world to hold board meetings.

The science park is the largest project to date by Windborne International and Skanska, which have jointly invested £800m ($1.35bn) in construction schemes over the past 10 years, mostly in office developments in London.

Euro likely to start equities ball rolling

Preparing for Emu

Big financial institutions do not usually stray too far from their own doorsteps when making equity investments. They like the comfort and familiarity of their home markets. But such attitudes are set to change dramatically with the arrival of Europe's single currency, the euro. Instead of using a country-based approach, big European investors will orient their portfolios more towards industrial sectors. Their approach will become less domestic and more international.

European monetary union starts in just over a year, and some institutions are already changing their portfolio strategies, especially in continental Europe. But the real signal will not come until next May, when euro member-countries will be chosen and their bilateral exchange rates fixed.

"In an environment of fixed exchange rates in Europe, investors should be indifferent to which market they invest in," says Gary Dugan, European equity market strategist at J.P. Morgan. "They are likely to seek out the best opportunities in whichever sector they wish to invest."

Investment is likely to flow to the most attractive companies in any sector across the euro zone, not to a single market. Because they will be measuring their portfolios against a future European stock index rather than national ones, they will need to increase their weightings in some sectors, decreasing them in others.

Energy stocks, for example, have a 10 per cent weighting in the markets likely to be part of Emu. But no pure energy stocks are represented in Germany's Dax blue chip index, Mr Dugan says. In Spain, banks and utilities dominate.

The UK is overweight in consumer stocks, where the German market is deficient. Germany's strength lies in the capital goods sector. Emu will enable fund managers to iron out these sector biases without incurring exchange rate risk.

At Deutsche Morgan Grenfell, Hans-Dieter Klein, head of German equity research, believes the usual "top-down" method of investing among various European countries will become obsolete. Since Emu members will have the same currency, common interest rates, converging inflation rates and similar fiscal policies, "it will no longer be necessary to make national allocations on the basis of macro-economic factors".

Instead, the equity allocation process within Emu will concentrate on stocks and sectors and thus be "bottom-up", he writes in a DMG study called "EquityPhoria – Entering New Territory". This will pose new challenges for investing institutions, which will need to obtain in-depth local knowledge of the companies they are investing in and evaluate this in a European context.

Moving from a pre-Emu to an Emu investment environment will entail much volatility as institutions change their portfolio mix. Fund-managers will look for stocks with the greatest liquidity and may be prepared to pay a premium for them, Mr Dugan says. This could lead to big price gaps between favoured and non-favoured companies.

Mr Dugan expects greater focus on equities in some portfolios previously dominated by bonds, since recent years have seen a narrowing of the risk gap between the two. Unless they have been severely discouraged by the latest turbulence on world markets, retail investors, too, should become more share-oriented and internationally minded, he adds.

If the UK joins Emu, some portfolio moves by institutions could be dramatic. A typical UK pension fund has 52 per cent of assets in domestic equities and only 9 per cent in continental European shares. "Take away the currency risk," Mr Dugan says, "and the reasoning behind this heavy bias towards domestic equities becomes less easy to argue".

In the event of UK membership of Emu, British portfolio managers would have to sell half their UK equity portfolio to invest in continental shares if they wanted to match a pan-European benchmark. This would affect the UK market, although continental investors would take up some of the slack as they moved into equities across Europe.

In Germany, institutions own only 19 per cent of their domestic market; the UK figure is 62 per cent. Companies hold 42 per cent of the German equity market. But because their shareholdings are strategic, they are likely to keep them. Thus the pace and pattern of diversification will vary between types of investor and countries.

The impact of Emu will go deeper than merely persuading institutions of the need to adopt a pan-European strategy. With greater market transparency brought by the single currency, companies will be under more intense pressure to compete. This will speed the restructuring process and encourage greater economic deregulation by governments. It will also expose differences in tax rates and labour costs, with Germany under pressure to reduce both. Institutions will still have to consider national differences.

Eventually, a single European stock exchange will develop in the euro zone, expected to be the world's third biggest equity trading area after the US and Japan. "If investors had their way, it would happen tomorrow," says Mr Dugan. Emu will at least set the ball rolling.

See US news: US watches for euro impact

Andrew Fisher

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

Provisional Prices for Trading on 18.11.97 — Final Prices for Trading on 21.10.97

½ hour period ending	Pool purchase price £/MWh	Pool purchase price £/MWh	Pool selling price £/MWh	TS use of system price £/MWh
0030	14.96	14.85	15.54	1.46
0100	18.94	14.85	15.54	1.46
0130	38.92	14.85	15.54	1.46
0200	26.92	14.85	15.54	1.46
0230	26.92	14.85	15.54	1.46
0300	18.94	14.85	15.54	1.46
0330	18.94	14.85	15.54	1.46
0400	14.96	14.85	15.54	1.46
0430	14.96	14.85	15.54	1.46
0500	10.44	14.85	15.54	1.46
0530	10.46	10.44	10.44	0.00
0600	10.44	10.44	10.44	0.00
0630	18.62	10.46	10.46	0.00
0700	23.57	16.56	17.25	1.46
0730	27.52	26.75	27.45	1.46
0800	27.52	27.37	28.08	1.46
0830	27.82	37.91	38.62	1.46
0900	31.64	40.84	41.57	1.46
0930	31.80	40.85	41.58	1.46
1000	31.80	40.87	41.61	1.46
1030	31.80	39.30	40.04	1.46
1100	31.80	39.29	40.03	1.46
1130	33.22	39.30	40.04	1.46
1200	52.67	40.87	41.62	1.46
1230	82.67	72.15	72.89	1.46
1300	52.67	72.11	72.83	1.46
1330	33.22	40.78	41.48	1.46
1400	33.22	27.36	28.07	1.46
1430	33.22	27.36	28.08	1.46
1500	33.22	27.35	28.05	1.46
1530	33.22	27.35	28.05	1.46
1600	33.23	27.36	28.06	1.46
1630	46.58	27.38	28.09	1.46
1700	58.96	32.15	32.88	1.46
1730	95.22	40.86	41.60	1.46
1800	94.05	41.30	42.21	1.46
1830	56.43	69.74	70.89	1.46
1900	46.45	69.94	71.19	1.46
1930	34.73	69.50	70.63	1.46
2000	33.22	47.15	47.95	1.46
2030	31.11	44.02	44.73	1.46
2100	31.11	32.09	32.78	1.46
2130	31.64	32.07	32.77	1.46
2200	27.52	27.34	28.03	1.46
2230	23.67	26.75	27.44	1.46
2300	23.56	22.78	23.48	1.46
2330	19.16	16.95	16.64	1.46
2400	18.62	14.89	15.58	1.46

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £16.89/MWh becomes 1.689p/KWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreement which governs the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The calculation of pool prices is a highly complex process the product of which is subject to revision or correction (and sometimes major alterations) until final pool prices are determined [illegible] Limited

NEWS: EUROPE

Spain prepares to fight for EU grants

Madrid fears accession of new members will be paid for by cutting 'cohesion' funds, reports David White

Spain is bracing itself for what could be its biggest conflict with the European Union since it joined 12 years ago.

The conflict arises from the tension between the EU's enlargement plans and Spain's claims on the structural grants designed to reduce inequalities among different parts of the EU.

"The debate has hardly begun," Ramón de Miguel, state secretary for Europe, said. But he warned in an interview that the issue of finding the financial resources for expansion risked provoking "serious clashes" between partners.

"We cannot expand at the cost of dissolving fundamental principles," he said.

The centre-right government of José Maria Aznar has taken a firm view that the accession of new members should not be paid for by making the poorer members of the current 15 forgo "cohesion" funds and other structural grants they currently receive.

The line from the prime minister's office is that Spain is ready to pay its share of the cost but not part of others' share as well.

Mr de Miguel denied Spain was threatening to block the enlargement negotiations, due to begin next year, or was setting preconditions. It wanted to keep to the spirit of Agenda 2000, the European Commission's blueprint programme, by taking "one step at a time". If the different processes became entangled, the result could be "total gridlock".

Madrid remained "totally in favour" of widening the EU, although not out of its own economic interests. "We are not going to gain from enlargement," Mr de Miguel said. It was a matter of continuing to show solidarity between European countries.

But solidarity among existing members would be in jeopardy if current support funds were sacrificed. He said some European Commission officials were backing German proposals to cut off "cohesion" funds for countries joining the single currency in 1999.

These funds, launched five years ago at Spain's demand to ease the monetary union process, are destined for transport and environment investment in the four countries with per capita income levels below 90 per cent of the EU average. Spain, because of its size in relation to Greece, Portugal and Ireland, gets more than half – to date, some Pta600bn ($4.1bn).

"This is not a debate we want to open," Mr de Miguel said. Challenging the cohesion payments "would imply such an injustice that Spain would not be willing to accept it". Spain deserved recognition for its "special effort" in tightening its national budget to meet the convergence targets for monetary union. This was at the cost of "real" convergence – the process of bridging the 22-23 per cent gap between average income in Spain and the EU as a whole. Spain still needed big investments in infrastructure, he said, arguing: "It is in the interests of the more prosperous parts of the EU that Spain should catch up with them."

He hoped the future of support funds would be agreed by the end of next year, but it was hard to tackle budget issues with Dutch and German elections looming.

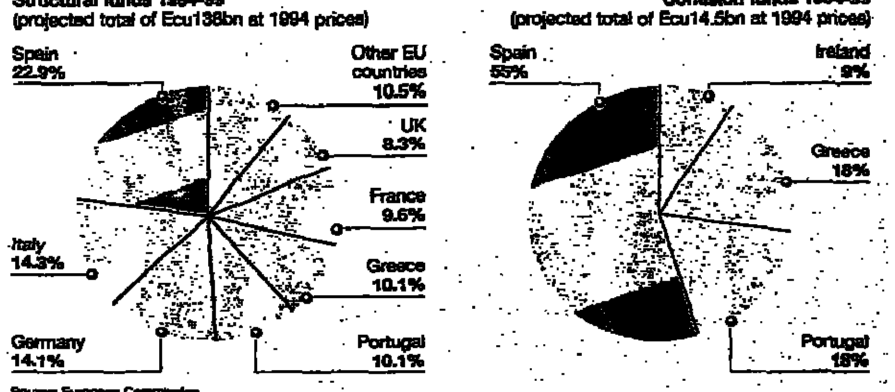
Commission financing proposals for 2000-2006 foresee spending of Ecu275bn ($316bn) on structural measures, including Ecu21bn on cohesion payments. Of the remainder, Ecu45bn would be set aside for the future new members, with part of the money coming from savings made as some regions cease to qualify for special regional funds.

Most of Spain's regions have up to now obtained "Objective 1" funding, destined for areas with income levels below 75 per cent of the EU average. Madrid accepts that some – notably the Valencia region – are likely no longer to qualify, but insists aid should be phased out over a period. It is also keeping a wary eye on proposals for channelling some structural funds into employment initiatives.

"We are running the risk of not putting up enough money to finance our ambitions," Mr de Miguel said. Spain agreed there should be spending limits, but the plan to keep to a maximum of 1.27 per cent of EU GDP should be "indicative", not a fixed ceiling. This might be sufficient as long as the EU sustained 2 per cent real growth over the period, as envisaged, and ordered its finances better. The package should cover the needs of new members, since for the first part of the period negotiations would not have been completed. "Another question is what happens from 2007," he warned.

"What we do not want is to discover half way through that 1.27 per cent is not enough, and to have to find the money," he said. Spain wanted the EU to have the courage to strengthen its funding, changing the basis of members' contributions and gearing them to per capita income levels as well as national GDP. But it realised this idea was "very unpopular", he said. "It is easier to take away cohesion funds and reduce structural funding."

Spain's slice of the cake



Source: European Commission

NEWS DIGEST

Greek banks raise rates

Three Greek banks yesterday raised deposit and lending rates in response to a short-lived currency crisis earlier this month, which pushed short-term interbank rates as high as 150 per cent.

The move contributed to a 3.9 per cent fall yesterday on the Athens stock market, in the wake of a 5.4 per cent decline last week.

Alpha Credit Bank, National Bank of Greece and Ergobank, the country's leading commercial banks, raised deposit rates by up to 1.5 percentage points and lending rates for working capital by up to 3.5 points.

The increases came despite an appeal by Yannos Papantoniou, economy minister, for banks to hold down interest rates and "take into account what is best for the economy". In a newspaper interview published yesterday, Mr Papantoniou claimed that Greek banks' first-half profits on local bond and foreign exchange markets outweighed their losses during the drachma crisis.

Many Greek banks hold up to 40 per cent of assets in Greek government securities, which have lost up to 10 per cent of their value following heavy selling by foreign investors. *Kerin Hope, Athens*

■ AID FOR VW

Brussels green light expected

The European Commission is today expected to clear a package of government aid to Volkswagen's plant at Baunatal, in the state of Hesse, on condition that a separate DM90.7m ($53m) of state aid to the company's plant in Saxony is repaid, Commission sources said yesterday.

The decision will close an acrimonious dispute between Bonn and Brussels over subsidies paid by the east German state of Saxony to two VW plants, even after the Commission had declared the aid illegal under EU rules. There is no formal link between clearance of the Baunatal aid and settlement of the Saxony dispute but the Commission made it clear a few weeks ago that no new aid to VW would be permitted until the Saxony subsidies were repaid. *Emma Tucker, Brussels*

■ FRENCH BUDGET

Deficit 'still on target'

France's budget deficit in September widened marginally, but finance ministry officials insisted the target of 3.1 per cent of gross domestic product would be met this year.

The September deficit topped FFr292bn ($51bn), FFr13bn more than in the same period of 1996. Fiscal receipts were down 0.1 per cent, while in August they were up 3 per cent. Against this were increased social security and schooling expenditures.

Officials attributed the dip to three factors. First, income tax revenues were FFr11bn lower as a result of the full implementation of changes introduced by the previous government. Second, changes in procedures in European Union transfers led to a decline of FFr8bn. Last, the expected September draw on the Caisse des Depôts, the state-controlled financial institution, of FFr12bn has been postponed until November. *Robert Graham, Paris*

■ SINGLE CURRENCY

Fewer Germans oppose euro

Opposition to the euro in Germany appears to be declining, but the country remains far from enthusiastic about the planned single European currency, opinion polls suggested yesterday. The Konrad Adenauer foundation, a think-tank linked to the Christian Democratic Union of Helmut Kohl, the chancellor, said the number of Germans opposing monetary union fell to 45 per cent in late August from 63 per cent in October last year. The foundation said nearly 40 per cent of Germans favoured the euro, up from around 35 per cent previously. *Peter Norman, Bonn*

■ BERLIN AIRPORTS

Seven consortia interested

Seven consortia have expressed interest in buying a majority stake in Berlin's regional airport authority, BBF, which is scheduled to build a new international airport just outside the German capital. The consortia comprise 20 companies.

The deadline closed yesterday for declarations of interest in the sale, seen as a test case for public-private partnerships in German infrastructure projects.

The successful bidder will own at least 74.9 per cent of BBF and get a 50-year licence to operate the new airport, expected to cost DM5bn to DM8bn ($2.9bn-$4.6bn) and be operational by 2007.

Among those declaring an interest are BAA of Britain and the German construction group Hochtief. Hochtief is working together with ABB, the Swiss-Swedish group, Siemens and the Frankfurt airport holding company. The BAA consortium includes the German insurer Allianz, the Australian group AMP and the Daimler-Benz subsidiary Debis. *Frederick Stüdemann, Berlin*

Russia acts to defuse Iraq conflict

By Laura Silber in New York and David Gardner in London

Russia yesterday intensified diplomatic efforts to defuse the conflict with Iraq over United Nations arms inspectors as UN commissioners prepared to hold an emergency meeting on the crisis.

President Saddam Hussein, who on Sunday said he did not seek confrontation with the US over the issue and wanted to resolve the 20-day stand-off through dialogue, yesterday met senior aides for discussions.

In Moscow, Yevgeny Primakov, Russian foreign minister, said: "We will do everything to find an exit to this crisis through the path of peaceful political settlement."

He told reporters that a resolution would need to "improve the activities of this special commission so it would be clear to all that there was light at the end of the tunnel".

Kofi Annan, UN secretary-general, hailed the diplomatic efforts to avoid a conflict as "encouraging".

Intensified contacts between the US, Russia, Britain and France appeared yesterday to be advancing towards a two-part strategy.

The first requirement would be to spell out to Iraq exactly what it needs to do to get sanctions lifted, and to demonstrate to Baghdad that "it is an achievable target", as one western diplomat put it. Until the weekend, the US, with UK acquiescence, has tended to the view that sanctions would stay until President Saddam Hussein goes, irrespective of Iraqi compliance.

But second, the diplomatic push by four of the five Security Council powers would emphasise the possibility of expanding the "oil-for-food" facility under Resolution 986, which allows Baghdad to sell oil worth $4bn a year to import food and medicine.

"More can be done to alleviate the suffering of the Iraqi people and show that our quarrel has never been with them," a spokesman for the UK foreign office said.

Meanwhile, Richard Butler, the Australian head of the UN disarmament commission (Unscom), said yesterday his commission would brief the Security Council tomorrow on its ability to perform following the withdrawal last week of all but a skeleton crew of seven from Iraq.

Unscom's 21-member advisory board will hold an emergency meeting in New York this week. Mr Butler said since the board's members have to travel considerable distances they could meet on Friday at the earliest. Last week Russia, irritated that Mr Butler had ordered the withdrawal of the bulk of the UN inspection team after Iraq ordered its six US members expelled, requested that the advisory board meet.

Iraq accuses the US of dominating the UN inspections and constantly placing new obstacles on the lifting of sanctions.

Zimbabwe's reform plans take a knock

Tony Hawkins on a move to force currency conversion to boost reserves

Zimbabwe's trade liberalisation reforms and foreign investment drive received a sharp setback yesterday when the Reserve Bank, the country's central bank, demanded the immediate conversion of corporate foreign currency accounts into Zimbabwe dollars in an effort to shore up the currency.

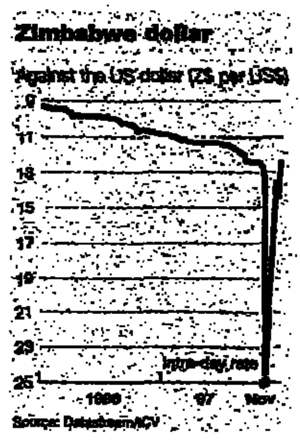
Takeover of the domestic corporate foreign currency accounts – non-resident holders and individuals are not affected – should boost official reserves, now down to less than two months import cover, by $75m, or sufficient to cover three months' imports.

After tumbling 5 per cent on Friday, the currency lost another Z$1 to close at Z$15.5 to the US unit.

The rediscount (bank) rate was raised three points to 28.5 per cent from 25.5 per cent previously and other minor, technical exchange control regulations were tightened.

As on Friday when the currency crisis broke, trading was hugely volatile with the rate hardening from Friday's close of Z$14.5 to about Z$11.5 before resuming its slide. At the close, the Zimbabwe dollar had fallen nearly 30 per cent this year – almost 20 per cent in the last month.

Mugabe: promised to take over designated farms



Source: Datastream/ICV

Ministers and officials have blamed speculation and inaccurate media reports for the slump.

However, the real culprits are the crisis of confidence created by the government's mishandling of the economy, and especially the threatened designation of 1770 white-owned farms along with its failure to come up with a credible policy for financing the promised but unbudgeted, $300m payout to war veterans.

The payout of just over 2 per cent of gross domestic product would increase the budget deficit from a previously-estimated 8.9 per cent of GDP to about 11 per cent. This is believed to be the main obstacle in the way of a new loan agreement with the International Monetary Fund which is desperately needed.

President Robert Mugabe has promised repeatedly to take over the designated farms, paying compensation only for improvements, not for the land itself, by the end of 1997.

He has no money to pay for the improvements, let alone the land, and when a fortnight ago Kumbirai Kangai, agriculture minister, claimed that Britain had agreed to finance the government's resettlement programme, this was promptly denied by Whitehall.

Mr Mugabe has now painted himself into a "damned if he does, damned if he doesn't" corner.

With an important party congress looming next month, the political fallout from yet another climbdown over land – he has been promising land redistribution since the early 1980s – will further undermine his increasingly tarnished image.

Should he try to take the land without paying realistic compensation, the country's efforts to borrow from the IMF, raise foreign aid and attract foreign investment would be fatally undermined.

The crisis is the result also of the $600m deterioration in Zimbabwe's balance of payments in the first seven months of the year, attributable to lower exports and increased imports, and the drying up of donor balance of payments support since 1995 when the IMF suspended lending to Zimbabwe because fiscal targets were missed.

Partial trade data published by the central bank, show exports down 11 per cent and imports up 10 per cent so far this year. In the first half of the year too, the real exchange rate was allowed to appreciate to the point where it was 50 per cent above its levels of six years ago.

Mishandling of economy has created crisis of confidence

Both fiscal – and to a much lesser extent, monetary – policy have been lax, with money supply growing 26 per cent in the first half of the year.

While inflation has slowed markedly in recent months to 16.6 per cent in October, this is largely due to volatile food prices, and the underlying rate remains at 19 per cent – 14 percentage points above the central bank's estimate of trading partner inflation.

Crucially important now will be the attitude of overseas investors who own about $110m of Zimbabwean equities. If a significant number of emerging market funds decide that the country's liquidity-driven equity boom is now history and sell, then yesterday's makeshift solution will be shortlived.

Some analysts say it makes little sense for foreigners to sell into a market from which the buyers have retreated, but it could still happen, if they believe that the Zimbabwe dollar has nowhere to go but down.

The best news for the currency and equity markets would be an agreement with the IMF, or at the very least agreement to maintain the dialogue, along with credible statements on both land and war veteran's compensation. But as one analyst noted, recent events have demonstrated that policy credibility is not the government's strong suit.

NEWS DIGEST

Winnie eyes top ANC post

Winnie Mandela launched her bid to become deputy president of South Africa's ruling African National Congress yesterday with an attack on the party leadership, and a call for a referendum on the reintroduction of the death penalty. Mrs Mandela, divorced last year by President Nelson Mandela, said if the people wanted her to become deputy president of the ANC at the party's congress next month nothing could stop her.

Mrs Mandela has been nominated for the post by the ANC women's league, of which she is president. Every effort is being made by senior ANC officials to ensure that Mrs Mandela fails in her bid. Mr Thabo Mbeki, who is already assured of the ANC presidency when Mr Mandela steps down next month, has made clear that winning the deputy presidency of the party does not automatically mean the successful candidate going on to become deputy president of the nation. *Roger Matthews, Johannesburg*

■ LIKUD

Netanyahu faces rebellion

Benjamin Netanyahu, Israel's prime minister, yesterday faced a rebellion by senior members of his own Likud party, who began mobilising support to wrest the party from his control. Roni Milo, the popular Likud mayor of Tel Aviv, predicted "dramatic political developments" that "could lead to a change in power". He said senior party members were trying to rally 12 of 22 Likud faction deputies to oppose the prime minister and take control of the party.

Mr Netanyahu heads a 32-member three-party faction in the 120-seat Knesset (parliament). Benny Begin, a former Likud minister and fierce opponent of Mr Netanyahu, urged Likud ministers to take action and "stop burying their heads in their [ministerial] portfolios". Angry Likud members met yesterday and several lashed out at Mr Netanyahu, who was abroad. *Avi Machlis, Jerusalem*

■ NIGERIA

Abacha dismisses cabinet

General Sani Abacha yesterday dismissed his entire cabinet and promised to release some detainees, renewing speculation that Nigeria's 54-year-old military ruler planned to stand for president in civilian-rule elections due to be completed by October next year.

"Due note has been taken of the desire of some members of the cabinet to fully participate in the political process," said Gen Abcaha in a speech marking the fourth anniversary of his seizure of power.

Commenting on the announcement, Nigerian officials suggested that the moves were intended to enhance the credibility of the election process, in which participation has been limited to five political parties approved by the government. *Michael Holman, Africa Editor, London*

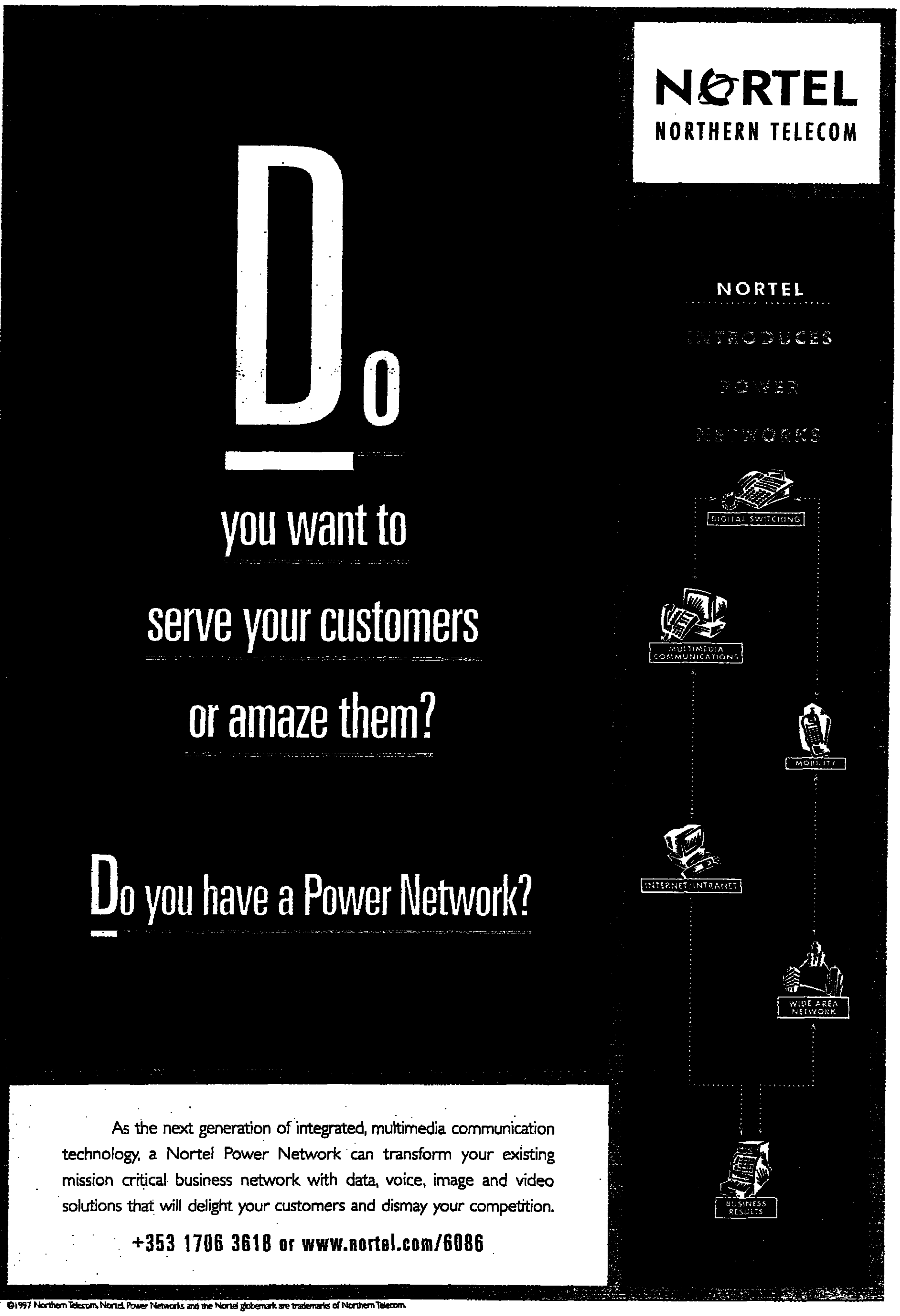
■ OBITUARY

Richard Hall

Richard Hall, publisher of the London-based economic newsletter Africa Analysis, and former Financial Times journalist, who died aged 72 on Friday night, was one of the most respected commentators and writers on Africa. His career spanned the continent's revolution, from the struggle against colonial rule and the coup-ridden period that followed, to the region's efforts to revive an economy shattered by mismanagement.

He maintained an abiding passion for Africa, forthright in his exposés of its weaknesses, but convinced of its potential. Born in 1925, Dick, as he was known to his friends, served in the Royal Navy during the second world war, and after leaving Oxford joined the London Daily Mail. In 1955 he went to Northern Rhodesia, now Zambia, where he became editor of the Times of Zambia. He returned to Britain in 1967, and from 1976 to 1980 worked at the Financial Times, during his last two years editing Men and Matters, as the paper's diary column was then known.

Dick is survived by his wife Carol, and the five sons of his first marriage. *Michael Holman*

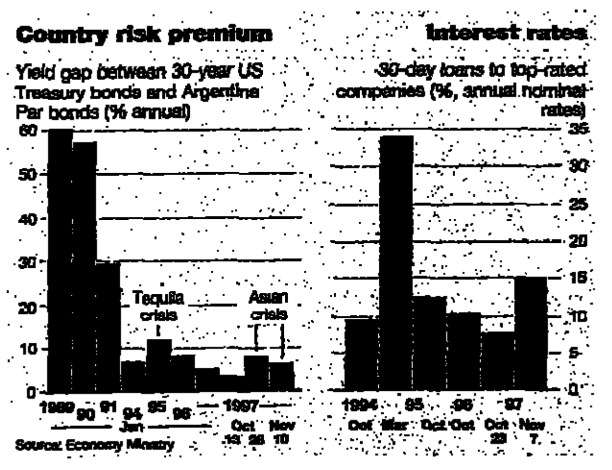


Buenos Aires feels chill of financial upheavals

But despite problems, economic growth forecasts are upbeat

Argentina's economy continues to generate impressive growth statistics. Last week the economy ministry said industrial production in October hit a new record, up 9 per cent from a year ago, leaving gross domestic product on track to grow about 8 per cent this year.

But those numbers already feel like history. Analysts have been trimming their growth forecasts since the global financial turmoil. And the austerity package announced last week in Brazil, Argentina's main trading partner, has further damped expectations.



The changed international financial conditions leave Argentina with a likely mix of lower export demand from Brazil, higher domestic interest rates and a higher country-risk premium.

Despite these negatives, many analysts are making only modest cuts in their growth forecasts. Walter Molano of SBC Warburg in New York, who was earlier predicting a "floor" of 6 per cent growth next year, has adjusted his forecast down to 4½-5 per cent.

Analysts' relative optimism is based on several factors. Higher domestic rates, while delaying some companies' projects, may have only a limited effect on Argentine consumers. "Growth in Argentina this time has been investment-led," said Mr Molano. "Consumer spending never really reignited, so there is not so far to fall."

Lower exports to Brazil, though unwelcome, will affect chiefly consumer goods, in particular vehicles and vehicle parts. Commodities and oil will find other outlets. Mining is also set to make a growing contribution to exports next year.

Argentine exports make up less than 10 per cent of GDP, and exports to Brazil account for just 3 per cent, limiting the impact of a Brazilian downturn.

A slowdown should help Argentina's trade position as imports of capital goods decline. This would help contain the current account deficit, heading for about 3 per cent of GDP this year.

Continuing growth is predicated on an orderly end to the global market turmoil and avoidance of world recession. "There is clearly a global deflationary impact from the south-east Asian devaluations," said Domingo Cavallo, the former economy minister.

"But if the developed countries react with appropriate monetary policies, and if emerging economies, including Argentina, continue on the path of economic reform, then a severe crisis can be avoided."

A disorderly end to the crisis is what the Argentines fear most. In particular, an uncontrolled devaluation by Brazil would be a big blow to investor confidence and put "convertibility", the peso's one-for-one link with the dollar, under severe pressure.

But at least the authorities have had some experience in dealing with such a crisis. During the "Tequila effect", after Mexico's December 1994 devaluation, a fifth of all deposits fled the banking system. The economy shrank 4.6 per cent in 1995 as interest rates ratcheted up – but convertibility held.

Since the Asian crisis returned last month, total bank deposits have risen; analysts agree the banking system is stronger than in 1995.

But after shaking off the after-effects of the "Tequila", the last thing Argentine policymakers want is to face another test of fire. "No wonder everyone is talking up the Brazilian plan's chances of success," said one analyst.

Ken Warn

Fair warning: Outside the Emu zone are problems and opportunities, says McDonough AP

US keeps close watch for euro impact

William McDonough, president of the Federal Reserve Bank of New York, last night spoke to the Association of German Mortgage Banks in Frankfurt about the influence he expects a future European currency to wield. The following is an extract from his speech

The economic impact of the euro in international trade transactions is likely to be limited. The same cannot be said of the euro's potential role in international financial transactions.

Partly because of their sheer magnitude – some estimates place the volume of international capital transactions at more than 40 times the volume of international trade transactions – growth in the use of the euro as the currency of choice in global capital markets will have more significant repercussions for the US than will increasing use of the euro in global product markets.

As the market for a currency becomes more liquid, the costs of carrying wealth denominated in that currency fall, raising investors' preferences for denominating their portfolios in that currency. These increased preferences in turn lead to a further deepening and broadening of the market for that currency, costs of holdings are reduced further, and the process continues.

I would suggest that the current role of the dollar should not be taken for granted. Once the euro comes into existence, the simple conversion of the Emu countries' outstanding securities will contribute to the immediate creation of a major securities market.

This development will give the market depth and liquidity, and in so doing, bring down the costs of conducting transactions, issuing loans, and trading securities below those currently seen for European national currencies – possibly to levels comparable to those for dollars.

If the US experience is of any relevance, we may expect to see a decreasing use of bank loans in favour of a growing use of securities in Europe after 1999.

The move to a single-currency, highly securitised European capital market cannot be expected to be completely painless. The banking sector will bear the brunt of the costs associated with the changeover. It will suffer losses from reduced foreign exchange trading and transfer revenues.

There will be new opportunities for banks, particularly in the areas of investment banking and the cross-border sale of deposits, mutual funds and other savings products.

On balance, the commercial position and earnings of many European banks are likely to come under pressure, possibly accelerating the ongoing restructuring of Europe's banking industry.

Some have argued that Emu may cause a short-run glut of dollars in the international capital markets, leading the dollar to depreciate and the euro to appreciate.

While some decline in the reserve role of the dollar is certainly plausible with the creation of Emu, I believe the risk of a dramatic shift in official dollar reserves both in and outside Europe in the wake of Emu has been exaggerated.

It will take some time before the objectives and operating procedures of the European central bank become clearly understood by market participants.

Given its need to instil confidence in the markets the bank is likely to want to be perceived as ready and able to operate effectively in the dollar market, for which substantial dollar reserves may be required.

It seems safe to assume that significant changes in the international role of the dollar and the functioning of the international monetary system would occur only gradually, and surely in a manner that could be easily coped with.

In contrast to the US, Europe is characterised by a more segmented labour market and limited integration of its national fiscal systems. Both these characteristics limit the ability of Europe's private sector to shift resources in response to regional recessions. This lack of flexibility is widely acknowledged to be one of the root causes of the high unemployment Europe has experienced in the last decade.

The argument that Europe can ill afford to renounce exchange rate flexibility rests crucially on the view that Europe is significantly more heterogeneous than the US, and therefore, more vulnerable to country specific shocks that can best be corrected by exchange rate changes. I do not support this view.

It is possible to suggest that the economies of some European countries have more in common today than do those of some individual states in the US.

NEWS DIGEST

Election ban on Teamsters chief

A special court-appointed monitor yesterday ruled that Ron Carey, Teamsters president, cannot run for re-election, a decision which threw the 1.4m member union into turmoil as reformers searched for a new candidate.

In August, a federal official overturned Mr Carey's 1996 re-election victory over James Hoffa, son of the famous union leader, because of illegal fund-raising. Three of Mr Carey's aides pleaded guilty to a conspiracy in which they funneled money from the Teamsters treasury to the president's re-election.

Mr Carey had been viewed as a reformer, ascending to the leadership on an anti-corruption platform in 1991. Since then, he has ruthlessly cut privileges for union bosses, shut down local branches under suspicion of malfeasance and sought to re-establish the Teamsters' fading political and economic clout.

The decision against Mr Carey was issued by former federal judge Kenneth Conboy, a special adjudicator appointed by a district court judge, serving in the Teamsters cleanup process. *Nancy Dunne, Washington*

■ ARGENTINA BORROWING

IMF pact in sight

Argentina was yesterday set to conclude negotiations for a three-year $2.8bn extended fund facility with the International Monetary Fund.

A letter of intent for the accord is due to be signed within the next 10 days. Under the terms of the deal, Argentina has agreed a 1998 fiscal deficit target of $3.5bn, just over 1 per cent of gross domestic product, against a 1997 target of $4.5bn. The government has also pledged to conclude labour law reforms by next June.

The government has also agreed to seek to push through tax reforms by the end of next year. However, the accord excludes specific targets on judicial reform, which has been periodically discussed between the government and IMF officials. *Ken Warn, Buenos Aires*

■ US INDUSTRY

Output rises again

US industrial output rose in October as factory operating rates hit their highest level in more than 2½ years, the Federal Reserve said yesterday.

Total output by the nation's mines, factories and utilities rose 0.5 per cent last month after a revised 0.5 per cent increase in September. The capacity use rate, which measures how close businesses are to their maximum operating capacity, rose to 84.3 per cent – the highest since March 1995.

The lower-than-expected output and capacity use rates are likely to ease concerns about potential inflation pressures in manufacturing. The Fed has said it is watching closely for wage pressures generated by low unemployment. Analysts said the report showed the manufacturing sector remained strong at the start of the fourth quarter.

The Fed also noted the generally strong tone in manufacturing activity last month, though production of energy products and of construction materials leveled off. *Reuters, Washington*

■ US FILM BATTLE

Disney shows muscle

The Little Mermaid, Walt Disney's eight-year-old animated feature, took more than $10m at the US box office last weekend, reminding rivals bidding for a share in the animation market of the task ahead.

The strategic re-release, a week before News Corp's 20th Century Fox launches its first big-budget effort, *Anastasia*, shared second place in the listings with *Starship Troopers*, a science fiction production from Sony.

First place was taken by a Bruce Willis vehicle, *The Jackal*, a remake of *The Day of the Jackal*, which sold more than $15m worth of tickets. The reappearance of *The Little Mermaid* is part of a long-established Disney marketing ploy to introduce its hit animated features to successive generations of children and parents with the aim of selling additional home videos and associated toys. *Christopher Parkes, Los Angeles*

■ ONLINE SERVICES

AOL cyberspace leader

America Online, the largest US online service, has topped more than 10m subscribers, making it the largest single presence in cyberspace. The company announced yesterday it had added over 3m members in the US, Canada, Europe and Japan over the past year.

The figures indicate AOL may be putting behind it most of the problems resulting from an overburdened network. In December 1996, AOL started charging US subscribers $19.95 a month for unlimited use instead of charging by the hour as it had done for years. A surge of new customers overloaded the company's modems and left millions of customers getting busy signals instead of e-mail earlier this year. *AP, New York*

■ CUBAN ECONOMY

Growth 'despite sanctions'

Cuba's economy, bolstered by tourism and foreign investment, will grow by about 2.5 per cent this year and should continue to grow in spite of tightened US sanctions against the island, Carlos Lagé, Cuban vice-president, said yesterday.

"We are convinced ... that the economy has begun a process of recovery and that conditions have been created to continue the process in the next few years," Mr Lagé told presidents and directors from Latin American and Caribbean central banks. *Pascal Fletcher, Havana*

Business leaders want urgent action on taxes and telecoms

Plea on electronic commerce

By Louise Kehoe in San Francisco

The US and other governments must act quickly on several fronts including taxes, telecommunications deregulation and updating laws if businesses and consumers are to enjoy the full benefits of electronic commerce, a high-level computer industry group urges in a report to be published today.

Rapid growth in the use of information networks and technology "demands immediate action", said the Computer Systems Policy Project (CSPP), a group comprising chief executives of the largest US computer companies including Compaq Computer, Digital Equipment, Hewlett-Packard, International Business Machines and Sun Microsystems.

In particular, the group is calling upon the Federal Communications Commission to promote competition in local and regional telephone service markets.

This was essential if electronic commerce was to flourish, the group said. While competitive long distance telephone companies had built high bandwidth networks to carry internet traffic, local phone companies were still focused on voice services and were not doing enough to create the infrastructure needed for electronic commerce, CSPP complained.

Global markets also needed to be opened to new competition from network operators and service providers, according to the CSPP. The group said it would monitor steps taken by members of the World Trade Organisation to implement a broad agreement on telecommunications markets signed earlier this year to determine whether further multilateral agreements are needed.

Tax policy would be instrumental in determining whether the vast potential of global electronic commerce was realised or frustrated, the group said. The group advocates "tax neutrality," meaning no tax system should discriminate against electronic purchases. Tax policies in the US and abroad should be co-ordinated and efforts made to ensure no new "internet taxes" were imposed, the group said.

"CSPP believe it is critical to develop a broad domestic and international consensus," the report said. "Failure to do so could result in an electronic marketplace stifled by a random patchwork of thousands of differing [tax] laws and interpretations."

A framework of laws covering electronic commerce was also urgently needed, the industry group said. Current contract laws must be updated to address electronic transactions.

Kazakhstan turns east for business

Barakholka market, on the outskirts of Almaty in Kazakhstan, is a warren of metal truck containers which have been transformed into stalls.

Fur-hatted Chinese traders hawk Barbie doll copies and womens' stockings, staples of the growing shuttle trade between Kazakhstan and China.

A few miles away, in one of Almaty's five-star hotels, a more sophisticated version of the same trend is taking place. Champagne flows as Andrew Dixon, general manager of HongKong Bank, the largest bank in China, toasts the opening of its new Almaty office.

"We want to be positioned for the growth of trade with China and the Far East," he explains. Kazakhstan, along with the rest of land-locked central Asia, began the 1990s with Russia as its primary trading partner, mostly because of the lack of physical transport routes elsewhere. The fight to break free of this enforced dependence has led the countries to explore alternatives to the west and south, but over the past year Kazakhstan has begun to swivel 180 degrees to face its quiet neighbour looming across the Tien Shan mountains.

The most visible example of the rapid development of Kazakhstan-China commerce is two deals signed recently by the Chinese National Petroleum Company (CNPC) for privatised oil companies in Kazakhstan. These were finalised in September when Li Peng, China's premier, visited Kazakhstan and formally committed $9.5bn of investment to the country.

These deals included an accord by CNPC to build an oil pipeline from the western part of Kazakhstan to China, which will become a leading net importer of oil in the next decades as economic growth outpaces its resources. The deals could be the prelude to further commercial links between resource-rich but land-locked central Asia and resource-hungry China.

"Overnight, the centre of gravity in the transport equation has shifted due east," said David Skeels, British Gas representative in Almaty.

Nursultan Nazarbayev, Kazakhstan's president, is keen to see the trend continue. "We are open for collaboration with China, whose economic achievements are indisputable and give assurance that in the next century this country will be in the ranks of the most developed states," he said in an interview.

But some Kazakh experts are sounding a note of caution about China's ultimate intentions. "It is obvious that China is preparing a bridgehead into the north-west, and above all to central Asia and Kazakhstan," said Murat Auezov, formerly Kazakhstan's ambassador to Beijing, and an expert on Chinese affairs.

Likewise, diplomatic sources say that the US, which recently declared that access to the oil-rich Caspian Sea is an important strategic interest, might not be happy with the oil route to China, in spite of its doctrine of encouraging multiple pipelines.

The main barrier to further trade links with China, and the Far East in general, is lack of infrastructure. Most of the trade is by truck, as railroad capacity between Kazakhstan and China is limited to 2.5m tons a year because of different rail widths. For comparison, railroads can carry 100m-150m tons of cargo a year between Kazakhstan and Russia.

A Japanese company, Chori, is working on a project to expand the rail link between Kazakhstan and China to accommodate 5m tons a year, mostly to carry increased steel exports from Kazakhstan's recently privatised Ispat-Karmet steelworks.

Expanding the railways to China will also allow oil companies to ease transport bottlenecks while pipelines are laid. In November the US oil company Chevron, which is producing oil at the giant Tengiz oil field in west Kazakhstan, will send the first shipment of oil by rail to a refinery in western China.

"We are interested in exploring marketing opportunities in China. However, we continue to see the Caspian Pipeline Consortium as our priority," said Philip Meek, Chevron's representative in Almaty. The consortium, made up of a number of oil companies, is planning to build a pipeline from Tengiz to the Black Sea coast via Russia, but this has been hampered by delays over the past several years, making it necessary to find alternative export routes.

While most of Kazakhstan's exports are raw materials, it imports mostly cheap Chinese manufactures, which are visible at markets all over the country. Total trade turnover between Kazakhstan and China last year was roughly $500m, according to official figures, though experts say the real total is probably twice that, accounting for the shuttle trade in Chinese manufactures.

Back at Barakholka, as the sun reflects off the sheer peaks of the Tien Shan mountains, Elias, who sells Chinese-made luggage out of one of the metal truck containers, closes up shop for the day. Slapping the side of the container, he says: "It used to be there were only 100 of these containers in Almaty. Now there are 500. Next year, there will be double that."

Charles Clover

Traders in a market in Almaty, Kazakhstan

Oil and gas deal expected today

By Heather Bourbeau and Nancy Dunne in Washington

President Nursultan Nazarbayev of Kazakhstan yesterday signed a bilateral defence agreement with the US, but the attention of the business community was focused on the disposition of Kazakhstan's massive gas and oil reserves.

Two long-awaited production sharing agreements are expected to be signed today.

One is in preparation for exploratory drilling in the Kazakhstan sector of the Caspian Sea. Members of the North Caspian consortium include Mobil, Agip, British Gas, BP-Statoil, Shell and Total.

Plans are now in place to begin drilling in 1998.

The second deal concerns the Karachaganak oil and gas condensate field. The 44-year production sharing agreement between British Gas, Agip and Texaco is seen as a "symbolic" blessing by the US, given in the hope that Kazakhstan will not change the terms of the contract, as it has done in several minerals deals.

By one estimate, the project, which will include a primary refining facility and the development of export routes, is valued at $8bn.

Kazakh handling of gas and oil contracts has attracted controversy.

In the Tengiz oilfield, Kazakhstan's premier oil field, partners in the venture were changed as the government sought more direct control.

Last November, Sarybai Kalmurzaev, chairman of the state property committee, accused the ministry of oil of stealing $500m in oil revenues, exactly the amount paid by Mobil for its share of the Tengiz field.

Problems also plague the question of delivery.

The only operational pipeline for transporting the gas and oil from Karachaganak runs through Orenburg, Russia.

After long negotiations over participation in the project, Gazprom said it would not allow its pipelines to be used as transport from the site.

Alternative pipelines are being considered, including one through Azerbaijan to Turkey, another through Iran and one through China. The Chinese government recently signed an agreement to build a 3,000km pipeline across the land-locked state, connecting the oil-producing regions in the west with the refineries in the north and south and leading to western China.

"We welcome all routes [for pipelines] except one through Iran," said Elizabeth Jones, US ambassador to Kazakhstan.

US officials expect Kazakhstan to honour its contracts with oil and gas companies because they have extensive financial and technological resources and direct access to the president.

EU to lift ban on Iranian pistachio imports

By Emma Tucker in Brussels

A European Union ban on imports of pistachio nuts from Iran will be formally lifted in two weeks, a Commission official confirmed yesterday.

Brussels is satisfied that commitments given by the Iranian authorities to carry out scientific analyses of their pistachio nuts and provide exports with clear certificates removes any danger for EU consumers.

The ban was imposed in September after inspectors discovered batches of nuts contaminated with aflatoxin B1 – a highly toxic substance which can cause cancer.

It came at a particularly bad time for Iran as the nuts were harvested and ready for export to Europe.

Pistachios are Iran's largest foreign-currency earner after oil and carpets, with some 350,000 people working on pistachio farms or related operations.

The decision to reverse the block on imports was taken after a mission of inspectors visited Iran at the beginning of October.

A formal written engagement from the Iranian authorities to improve the hygienic conditions of the production, storage and transport of pistachios was taken into account by the inspectors in making their recommendation.

Certificates carrying the results of tests from a number of approved laboratories will also have to accompany shipments.

Pistachios from the US are a main competitor of Iran's nuts.

In June, US pistachio growers complained to Israel that they could not penetrate the Israeli market because it was saturated with Iranian nuts, despite a ban on their import.

NEWS DIGEST

Matra BAe in UAE arms offer

Matra BAe Dynamics, the Anglo-French consortium, yesterday said it was offering air-to-air missiles worth about FFr3bn ($518m) to the United Arab Emirates for Mirage 2000-9 aircraft the country is considering buying. The UAE is in talks to buy 18-27 upgraded Dassault Aviation Mirage 2000-9s to add to its existing fleet of 33 Mirage 2000 aircraft.

Matra BAe Dynamics said the company was offering the Mica and Asraam (Advanced short range air-to-air missile) as part of the weapons system. It is also offering the Storm Shadow air-to-ground cruise missile, which would be on top of the estimated price.

Matra BAe is a joint venture between British Aerospace and France's Lagardère group. Jean-Paul Gut Lagardère, executive vice-president, said Matra's alliance with BAe opened up the possibility of sales of Mica infra-red guided missiles and the Storm Shadow to Saudi Arabia, which flies Tornado aircraft built by BAe. Oman, which flies Jaguar strike jets, is a potential market for Matra BAe, as is Qatar, which flies Mirage 2000 aircraft. *Reuters, Dubai*

■ CHILE ARMS PURCHASES

Ministerial move delays deals

Two big arms purchases for the Chilean navy and air force, worth a combined $1bn, are in abeyance following the news that Edmundo Pérez Yoma, the present defence minister, is to leave the cabinet "early next year". His successor is not expected to be named until March.

The navy has been weighing the merits of British Upholder submarines, Swedish Gotland class submarines, the German type 209 and a French-Spanish model, the Scorpene. It had decided in principle on the Scorpene, the most modern and one of the most expensive options – the two submarines were expected to cost about $450m.

No contract has yet been signed. The price is beyond the navy's current procurement budget, and the defence ministry would not authorise a loan. The manufacturers may now have to await a new minister. They also have to deal with a new navy commander, Admiral Jorge Patricio Arancibia.

The air force is in the market for 16 new fighter aircraft, and is choosing between the Gripen aircraft from Sweden's Saab, France's Mirage 2000-5, and the Lockheed-Martin F-16. Earlier this year, the US administration lifted a 20-year ban on the sale of advanced combat aircraft to Latin America, and the F-16s are a strong contender. Dassault, the French manufacturer, and Saab of Sweden are also vying for the contract. *Imogen Mark, Santiago*

■ E EUROPE TUBE IMPORTS

EU imposes dumping duties

The European Union said yesterday it would impose anti-dumping duties on steel tube and pipe imports from eastern European countries. Duties of 7.5 per cent would be imposed on the Slovak Republic, 26.8 per cent on Russian products, as well as Czech Republic (28.6 per cent), Poland (30.1 per cent), Hungary (36.5 per cent) and Romania (38.2 per cent). Several companies were granted lower duties after commitments to price arrangements.

The EU has dropped anti-dumping proceedings against Croatian steel tube producers after finding no threat of an increase in exports to the EU. *International Staff*

NEWS: ASIA-PACIFIC


Richard Hu: speeding the pace of liberalisation

Singapore opens arms to foreign stockbrokers

By James Kynge in Singapore

Singapore is likely to increase the number of seats it offers to foreign brokerage houses on the Stock Exchange of Singapore and allow foreign participation in the share offerings of state-run companies, Richard Hu, the finance minister, said yesterday.

The likely reforms are part of a broader move to speed up financial deregulation, expected early next year.

Officials are shy of calling the reform programme a "big bang", but one termed it a "series of thunderclaps".

Mr Hu, who is also chairman of the Monetary Authority of Singapore (MAS), the de facto central bank, said that despite the region's financial turmoil, liberalisation could be pursued provided that economic fundamentals remained good and policies were sound.

The fact that the Singapore dollar has been relatively stable against the US dollar – and has appreciated significantly against south-east Asian currencies – was testimony that the city-state's economy is robust and mature enough to push ahead with financial industry reforms, Mr Hu said.

"Allowing more foreigners to come in to the stock exchange as full members....this is an area where I think we can afford to be more liberal," Mr Hu said. There are now 33 full members and 49 non-member companies on the stock exchange. Many foreign brokerages have said they are keen to secure a seat.

Mr Hu said another reform would probably be to allow foreigners an allocation in the public share offerings of state-run companies, such as Singapore Telecommunications. Such companies are typically the largest stocks on the local exchange. Singapore Power, the state electricity utility, and PSA Corporation, operator of the world's second busiest port, are two large flotations in the pipeline.

The island is keen to see a consolidation in the local banking industry, where 13 local and 22 fully licensed foreign banks operate. A cap on foreign ownership of local banks is likely to remain at 40 per cent "for the time being", but this does not preclude partnerships between foreign and local banks, said Mr Hu.

The aim of the proposed consolidation among 13 local banks was partly to make them large enough to take a bigger role in Asia's loan syndication business, which is dominated by Hong Kong. Mr Hu said that in an attempt to invigorate the local bond market, government-linked companies, which dominate the national economy, would be encouraged to tap the local capital market for funds rather than borrow from "friendly" bankers at advantageous rates.

The Singapore dollar is also set to be gradually internationalised, the finance minister said. This would entail a slow easing of some of the restrictions on foreigners lending Singapore dollars.

Mr Hu said the city state could tolerate "a significant gap" between the Singapore dollar's value and that of neighbouring countries' currencies because their respective export markets were different.

"Some exporters are happy and some are not. I think those which are finding that the gap is making them uncompetitive will simply have to pull up their socks, so to speak," he said.

Economists say Mr Hu's remarks were a signal that Singapore wanted to hold the currency relatively firm. "Those companies which are suffering because of the strengthening (Singapore dollar) will, like the Japanese in the early days when their currency was strong, simply have to improve their efficiency or get out of the business or ship part of their operations to lower cost areas," he said. The Singapore dollar has appreciated significantly against the Malaysian ringgit, Indonesian rupiah, Thai baht and Philippine peso since the currency turmoil began in early July.

Turmoil in Asia: □ Japan bank goes down □ China wants regional fund □ Tokyo's crisis package

Japan lets bank go to wall, gently

By Bethan Hutton in Tokyo

It was no secret that Hokkaido Takushoku, the Japanese bank which collapsed yesterday, was in difficulty. As the smallest of Japan's 10 city banks, it had been struggling with bad debts since the bursting of Japan's asset price bubble in the early 1990s. Its shares had fallen from Y1,630 at the peak of the market to Y59 last Thursday.

The surprise was first that Takugin, as it is also known, – one of Japan's top 20 banks, whose survival had always seemed a government priority – was allowed to collapse and, second, that it could be handled in such an orderly manner.

At this stage, the losers appear to be the shareholders, an as yet unknown proportion of the staff, and the senior management, who will all resign. All deposits and loans to the bank are guaranteed in the short run by the Bank of Japan, and eventually by the Deposit Insurance Corporation, a banking industry deposit insurance scheme.

The authorities' solution appears elegant. Takugin will continue trading for six months or more, while the profitable parts of its business are transferred to North Pacific (also known as Hokuyo), a smaller bank based in the same region. Buyers are being sought for its operations outside Hokkaido. The Bank of Japan, the central bank, will extend unsecured loans to cover its cash-flow needs during this period.

When the transfer is concluded, the DIC will cover all liabilities, including repaying loans from the BoJ and buying bad loans.

Earlier this year Takugin's future had seemed assured when the powerful ministry of finance negotiated a merger with Hokkaido Bank, a regional rival. But over the summer the merger talks became bogged down in disputes over the extent of Takugin's bad loans and minor issues such as the name for the merged bank. There were also hints of personality clashes between the two management teams. In September, the merger was postponed indefinitely.

Takugin's difficulties increased over the last fortnight, as the bankruptcy of Sanyo Securities, and then the mass downgrading of Japanese financial institutions' debt ratings, led to higher interest rates for Japanese banks in the short-term money markets. Eventually, on Friday, Takugin found that lenders were so wary of its financial position that it was having difficulty raising enough cash to cover the flow of withdrawals by customers who had seen the writing on the wall.

Over the weekend, Takugin's senior management met officials from the ministry of finance and the BoJ together with a number of commercial banks, to hammer out a solution. Hokkaido Bank, the proposed merger partner, was also present, but according to a BoJ official, "the consensus was that North Pacific Bank would offer the best chance. . . It was outstanding in terms of the soundness of its capital ratios."

Although North Pacific's financial position is relatively strong, it is much smaller than Takugin, and could not have taken on its entire branch network and bad debts. According to the most recent figures, its bad debts amount to Y934.7bn ($7.4bn), or more than 13 per cent of its total loans outstanding, and more may yet emerge. Transferring Takugin's business, rather than the company itself, will make it easier for North Pacific to reject much of the branch network and staff, which would otherwise have weighed heavily on the profitable elements of the business.

While the stock market made one of its most spectacular leaps on the news as traders appeared to interpret the move as a long-awaited infusion of public money to help failing financial institutions, the action falls somewhat short of the promise – yet – of unlimited public funds to bail out debt-laden banks.

The operation centres around the DIC, which is technically an industry rather than government fund. The DIC's resources are not unlimited, however, and although they should be sufficient to cover Takugin, it is by no means the only Japanese bank with serious problems. Direct infusions of public money may be needed if any more banks go under.

Analysts are now saying that Takugin could be just the first victim of Japan's newly red-blooded market mechanisms. "The sharks have smelt blood," said James McGinnis, banking analyst at Dresdner Kleinwort Benson in Tokyo. "We believe the financial markets – through a combination of higher funding costs, lower equity prices and heightened counterparty awareness – will hunt the weakest institutions into oblivion."

Editorial Comment ..... Page 17
Feature ..... Page 17
Lex ..... Page 18


Takushoku bank chief Sadamasa Kawatani announcing yesterday that the bank is going out of business Reuters

Beijing backs regional currency fund

By James Harding and Tony Walker in Beijing

China has indicated support for an Asian currency stabilisation fund, underlining Beijing's increasing willingness to back regional economic co-operation. The move also reflects concern about the impact on the Chinese economy of financial turmoil in the area.

Beijing has also decided to support a $23bn rescue package for Indonesia arranged by the International Monetary Fund. China contributed $1bn to a similar bail-out fund for Thailand earlier this year, participating for the first time in an international effort to provide a troubled economy with financial help.

Measures to deal with the region's financial woes, including proposals for a fund to stabilise regional economies, will be discussed at a meeting in Kuala Lumpur in mid-December of the Association of South East Asian Nations (Asean) and the leaders of China, Japan and South Korea.

This will be the first regional summit between Asean leaders and counterparts from the area's three biggest economies.

Chen Jian, an assistant foreign minister, said in an interview that China's greater involvement in economic co-operation with its Asian neighbours was driven by "a common interest in maintaining regional stability, so that we can all pursue our own economic development".

The setting up of a special Asian fund was proposed by Japan at IMF/World Bank meetings in Hong Kong in September and has been promoted with increasing vigour by a number of regional governments.

Until now, China has been ambivalent about the project, saying only it has been studying the proposal. The idea of an Asian fund has raised concerns in the US, where officials have questioned whether a regional facility could overlap or rival the work of the IMF.

Mr Chen said China will take a "positive" attitude towards financial co-operation in south-east Asia and the possibility of setting up an Asian fund. "We are working actively to discuss with our partners in the region to seek solutions that will be practical for all sides," he said, adding that Asian governments envisage a fund that would "operate within the IMF framework".

Mr Chen explained that China had decided to offer funds to assist Indonesia and Thailand, as well as taking a more proactive role in discussing future financial co-ordination, because "countries in the region recognised more urgently the need for economic co-operation after the financial turmoil in south-east Asia".

Regional financial co-operation to prevent further turbulence in Asia's financial markets is also likely to be high on the agenda at the meeting of Asia-Pacific Economic Co-operation (Apec) forum members in Vancouver later this month.

NEWS DIGEST

Pakistan's PM in court

Nawaz Sharif, Pakistan's prime minister, appeared in the Supreme Court in Islamabad yesterday charged with contempt of court. If found guilty, Mr Sharif could be disqualified from parliament.

The charges are based on remarks alleged to have been made by Mr Sharif to journalists last month. He allegedly accused Sajjad Ali Shah, chief justice of the Supreme Court, of exceeding his authority and undermining parliament. Justice Shah will resume the hearing today when he is due to see video-tapes of the news conference at which Mr Sharif allegedly made the remarks. On the first day of the proceedings, Mr Sharif denied before a panel of five judges that he had committed contempt of court, but expressed his "sorrow" if his statements had offended the judiciary.
Farhan Bokhari, Islamabad

■ PHILIPPINES INVESTMENT

Big fall recorded in October

Investments approved by the Philippines Board of Investments in October plummeted 62 per cent year-on-year to 4.2bn pesos ($123m), the first monthly slowdown this year, according to government figures. Cesar Bautista, secretary of trade and industry, said the steep decline was unrelated to "prevailing market conditions". He pointed to the total figure for the first 10 months, which showed investments reached 503bn pesos, five times the figure for last year.

In the wake of the regional currency crisis, investors in certain sectors in the Philippines have been faced with additional disincentives. A Supreme Court ruling this month, which declared unconstitutional the law deregulating the oil industry, has hit investor confidence. The mining industry says a new law protecting the rights of indigenous peoples – which comes into effect on Friday – will probably delay approval of new mining permits for six to 12 months.
Justin Marozzi, Manila

■ VIETNAM DEBT

Terms agreed with Romania

Vietnam and Romania have agreed repayment terms for about 70m transferable roubles in outstanding debt owed to Bucharest, one of its last remaining Comecon-era creditors. Though modest – the deal puts the debt at $12m – it comes less than a month after Hanoi restarted negotiations with Moscow over 10.5bn transferable roubles owed to Moscow. That was incurred when Hanoi was a satellite state of the former Soviet Union. Hanoi and Moscow have bickered over an exchange rate for the debt for years. But the size of Hanoi's non-convertible debt to Moscow has started to concern western economists. Hanoi's arrears in hard currency terms could threaten its foreign exchange reserves of roughly $2bn. The Romanian settlement fixes the transferable rouble – used by the former Soviet Union in dealings with client states – at a rate of six to the dollar.
Jeremy Grant, Hanoi

INTERNATIONAL ECONOMIC INDICATORS: BALANCE OF PAYMENTS

Trade figures are given in billions of European currency units (Ecu). The Ecu exchange rate shows the number of national currency units per Ecu. The nominal effective exchange rate is an index with 1985=100.

■ UNITED STATES

	Exports	Visible trade balance	Current account balance	Ecu exch. rate	Effective exch. rate
1986	231.0	−140.6	−155.8	0.9836	81.4
1987	220.2	−131.8	−145.6	1.1541	71.9
1988	272.5	−100.2	−108.4	1.1833	67.0
1989	330.2	−99.3	−94.5	1.1017	70.0
1990	309.0	−79.3	−72.1	1.2745	66.7
1991	340.5	−53.5	−4.6	1.2391	65.7
1992	345.9	−65.2	−43.5	1.2957	64.4
1993	397.3	−98.7	−77.6	1.1705	66.3
1994	432.3	−127.0	−112.6	1.1857	65.1
1995	452.3	−122.8	−99.9	1.2928	61.2
1996	499.0	−135.9	−118.3	1.2526	64.4
3rd qtr.1996	122.8	−37.2	−34.0	1.2613	64.4
4th qtr.1996	128.6	−34.8	−29.4	1.2557	65.0
1st qtr.1997	140.6	−38.8	−34.1	1.1713	68.3
2nd qtr.1997	152.8	−36.7	−34.3	1.1386	69.2
October 1996	42.7	−11.1	n.a.	1.2538	65.0
November	42.9	−10.7	n.a.	1.2706	64.4
December	43.0	−13.0	n.a.	1.2428	65.5
January 1997	43.2	−14.3	n.a.	1.2105	66.7
February	46.9	−13.5	n.a.	1.1587	68.9
March	50.8	−10.9	n.a.	1.1447	69.5
April	50.7	−12.1	n.a.	1.1401	70.4
May	50.6	−12.6	n.a.	1.1444	68.9
June	51.5	−11.9	n.a.	1.1312	68.4
July	52.5	−14.2	n.a.	1.1011	68.2
August	54.1	−15.0	n.a.	1.0695	70.7
September			n.a.	1.0974	

■ JAPAN

	Exports	Visible trade balance	Current account balance	Ecu exchange rate	Effective exchange rate
1986	208.9	94.2	87.2	165.11	127.7
1987	194.7	83.7	75.5	166.58	138.8
1988	218.7	79.8	67.0	151.51	153.7
1989	245.5	70.6	53.4	151.87	147.0
1990	220.0	50.0	28.5	183.94	132.5
1991	249.4	77.7	57.4	166.44	143.7
1992	256.8	96.2	86.7	164.05	150.7
1993	300.3	118.6	112.4	130.31	181.0
1994	325.0	121.7	110.5	120.99	194.9
1995	331.1	101.3	85.3	121.43	204.8
1996	319.8	66.6	52.6	136.24	177.7
3rd qtr.1996	78.7	15.7	13.2	137.43	178.9
4th qtr.1996	80.4	17.0	13.1	141.72	171.2
1st qtr.1997	83.3	14.7	13.1	141.82	164.3
2nd qtr.1997	94.2	24.9	23.2	136.15	168.4
October 1996	27.1	5.5	4.4	140.92	172.2
November	27.1	6.7	4.7	142.64	171.3
December	26.2	4.8	4.1	141.59	170.2
January 1997	28.4	5.9	5.6	142.63	166.5
February	27.6	4.1	4.0	142.52	162.3
March	27.3	4.7	3.5	140.32	163.7
April	33.6	7.1	7.1	143.23	160.2
May	33.0	10.2	9.4	135.92	169.0
June	31.2	7.8	7.6	129.31	176.5
July	32.4	7.7	7.3	126.84	177.0
August	32.8	10.0	9.6	125.99	175.3
September	30.2	7.0	6.0	132.58	

■ GERMANY

	Exports	Visible trade balance	Current account balance	Ecu exchange rate	Effective exchange rate
1986	248.7	53.5	41.8	2.1279	108.6
1987	254.4	56.8	40.6	2.0710	114.9
1988	272.6	61.4	42.4	2.0739	114.1
1989	310.1	65.1	51.5	2.0681	113.3
1990	324.6	51.8	38.3	2.0537	118.1
1991	327.6	11.1	−14.6	2.0480	117.1
1992	330.9	16.8	−15.0	2.0187	120.6
1993	325.2	30.6	−12.1	1.9337	125.3
1994	360.3	37.5	−17.8	1.9198	125.6
1995	404.5	46.6	−18.3	1.8509	132.1
1996	416.2	52.2	−10.4	1.8844	128.6
3rd qtr.1996	104.7	14.5	−6.5	1.8884	128.7
4th qtr.1996	105.9	13.9	−1.0	1.9217	127.0
1st qtr.1997	107.8	13.5	−4.8	1.9415	124.8
2nd qtr.1997	112.2	17.4	2.6	1.9511	123.3
October 1996	35.9	4.9	−1.0	1.9157	127.3
November	35.4	4.9	0.0	1.9207	127.3
December	34.7	4.1	0.1	1.9286	126.2
January 1997	34.9	2.5	−5.5	1.9414	125.3
February	36.0	5.0	−0.8	1.9412	124.5
March	36.8	6.2	1.5	1.9418	124.5
April	35.7	5.8	1.6	1.9509	123.9
May	37.8	5.1	−1.4	1.9491	123.8
June	38.6	6.5	2.4	1.9534	122.4
July	38.8	5.8	−1.7	1.9722	120.6
August	38.2	4.4	−2.7	1.9675	120.4
September				1.9618	

■ FRANCE

	Exports	Visible trade balance	Current account balance	Ecu exchange rate	Effective exch. rate
1986	127.1	0.0	3.0	6.7946	102.7
1987	128.3	−4.6	−3.7	6.9265	102.7
1988	141.9	−4.7	−3.4	7.0354	100.8
1989	162.9	−6.3	−3.6	7.0169	99.6
1990	170.1	−7.2	−7.2	6.9202	103.8
1991	175.4	−4.2	−4.8	6.9643	102.1
1992	182.5	4.5	2.9	6.8420	105.4
1993	179.6	13.3	8.0	6.6281	109.1
1994	198.9	12.6	5.4	6.5859	110.1
1995	219.7	10.4	8.4	6.4460	113.4
1996	230.2	13.8	16.4	6.4068	113.3
3rd qtr.1996	58.1	4.1	4.9	6.4242	113.2
4th qtr.1996	58.5	3.9	4.8	6.4976	112.5
1st qtr.1997	59.4	4.6	7.1	6.6517	110.9
2nd qtr.1997	62.8	7.5	9.8	6.5788	109.8
October 1996	19.8	1.8	2.3	6.4770	112.8
November	18.7	0.9	1.0	6.5001	112.6
December	19.9	1.2	1.5	6.5156	111.9
January 1997	19.3	1.8	3.2	6.5512	111.2
February	20.0	1.6	2.9	6.5539	110.6
March	20.1	1.4	1.0	6.5602	110.7
April	20.9	2.3	3.6	6.5715	110.3
May	20.7	2.5	3.4	6.5725	110.0
June	20.9	2.8	2.8	6.5923	109.1
July	21.8	3.2	3.7	6.6534	107.8
August	21.4	1.7	1.4	6.6309	107.8
September				6.5940	

■ ITALY

	Exports	Visible trade balance	Current account balance	Ecu exchange rate	Effective exchange rate
1986	99.4	−2.5	−1.4	1461.6	101.4
1987	101.0	−7.7	−2.1	1484.3	101.1
1988	106.3	−8.9	−8.0	1536.8	97.7
1989	127.8	−11.3	−17.0	1509.2	98.6
1990	133.6	−9.3	−18.0	1523.2	100.1
1991	137.0	−10.5	−17.7	1531.3	98.7
1992	137.9	−6.0	−21.5	1591.5	95.6
1993	144.9	18.1	9.7	1836.7	80.5
1994	161.4	18.8	13.1	1908.6	77.0
1995	181.0	21.6	21.7	2106.4	69.4
1996	200.3	35.0	33.5	1932.1	75.8
3rd qtr.1996	47.8	11.3	11.7	1918.4	76.7
4th qtr.1996	53.4	9.2	7.5	1911.2	77.6
1st qtr.1997	47.2	5.1	7.5	1917.8	77.0
2nd qtr.1997	54.0	6.8	6.2	1824.6	76.3
October 1996	19.1	4.0	3.6	1911.4	77.5
November	17.1	3.0	2.8	1922.6	77.2
December	17.2	2.2	1.1	1899.5	78.1
January 1997	14.3	0.9	3.8	1896.7	78.2
February	16.0	2.0	2.0	1918.8	76.8
March	16.9	2.2	1.8	1937.9	75.9
April	17.8	2.1	2.1	1931.6	76.3
May	18.1	2.5	2.1	1925.6	76.3
June	18.3	2.2	2.0	1916.7	76.4
July	21.5	5.6	7.8	1920.1	76.1
August	12.8	2.7	1.8	1921.9	75.7
September			−1.5	1914.6	

■ UNITED KINGDOM

	Exports	Visible trade balance	Current account balance	Ecu exchange rate	Effective exchange rate
1986	108.3	−14.2	−1.3	0.6708	91.1
1987	112.3	−16.4	−6.8	0.7047	89.3
1988	120.9	−32.3	−24.8	0.6643	94.7
1989	137.0	−36.7	−33.3	0.6728	91.9
1990	142.3	−26.3	−26.2	0.7150	89.8
1991	147.7	−14.7	−11.4	0.7002	90.5
1992	145.9	−17.8	−13.8	0.7359	87.1
1993	156.0	−17.3	−13.2	0.7780	79.9
1994	174.1	−14.4	−2.1	0.7736	80.1
1995	186.9	−14.1	−4.5	0.8190	76.2
1996	207.2	−15.7	−0.5	0.8026	77.5
3rd qtr.1996	51.4	−3.9	−0.5	0.8113	76.8
4th qtr.1996	54.9	−3.4	0.7	0.7670	82.1
1st qtr.1997	58.0	−3.4	1.9	0.7186	87.0
2nd qtr.1997	60.9	−3.7	1.3	0.6960	89.5
October 1996	18.2	−0.9	n.a.	0.7904	79.4
November	18.1	−1.3	n.a.	0.7642	82.6
December	18.6	−1.2	n.a.	0.7465	84.4
January 1997	19.6	−0.8	n.a.	0.7298	86.2
February	19.6	−1.1	n.a.	0.7132	87.5
March	19.1	−0.9	n.a.	0.7127	87.5
April	20.5	−1.3	n.a.	0.6997	89.4
May	19.9	−1.0	n.a.	0.7006	89.0
June	20.5	−1.4	n.a.	0.6878	90.2
July	22.4	−1.0	n.a.	0.6592	93.9
August	21.5	−0.7	n.a.	0.6670	92.1
September			n.a.	0.6852	

Due to the introduction of the Single Market, EC countries are currently changing to a new system of compiling trade statistics. All trade figures are seasonally adjusted, except for the Italian series and the German current account. Imports can be derived by subtracting the visible trade balance from exports. Export and import data are calculated on the FOB (free on board) basis, except for German and Italian imports which use the CIF method (including carriage, insurance and freight charges). German data up to and including June 1990, shown in italics, refer to the former West Germany. The nominal effective exchange rates are period averages of Bank of England trade-weighted indices. Data supplied by Datastream and WEFA from national government and central bank sources.

Warning on Asian assets

By John Ridding in Hong Kong

Asian assets are facing the risk of deflation not yet fully discounted in regional share prices, according to a study issued yesterday by ING Barings, the investment bank.

It cited "disturbing trends" in several industries, from steel to semiconductors, with a particular problem in chemicals.

"Many companies accumulated inventory in the summer in anticipation of prices bottoming," the study said. "The reality is the unpleasant combination of relatively high inventory levels and falling selling prices."

More generally, ING Barings said a combination of foreign exchange losses, rising interest expenses, slower sales growth and rising working capital needs were damaging cashflow and debt servicing funds.

"The desire to generate foreign currency to cover debt servicing for dollar liabilities has caused a shift to export goods," the report said.

In most markets, the threat of downward pricing pressure and reduced profit margins had not been sufficiently factored into stock market valuations. As a result, the bank maintained its underweight position in the region, despite the stock market falls.

Tax cuts unlikely despite pressure from US

Japan unveils next stage in its policy 'striptease'

By Gillian Tett in Tokyo

When the Japanese government unveils more measures today to boost a flagging economy, the markets will be watching for signs of long-awaited tax reductions.

They are likely to be disappointed. For although the US is now stepping up pressure for some radical stimulus measures, today's package will focus on longer-term supply side reforms, rather than extra spending or other short-term boosts.

Indeed, as the measures tumble out today they are more likely to be akin to another round in a longer running policy "striptease" – rather than a radical change in direction.

It started last month, when the government made vague pledges to take measures to boost the economy, including a reform of the corporate tax regime and property law changes.

Last week more details trickled out: the government pledged, for example, to launch a UK-style private finance initiative and cuts in internet and postal charges.

However, today's package, which has been drawn up by the Economic Planning Agency, will add more meat on those bones. It will cobble together a motley collection of 100 old and new reform proposals into a 25-page document. These will include:

■ Measures to boost Japan's ailing property market, by changing the law to allow special purpose companies for securitisation to be set up. Laws governing land use will also be eased.

■ Help for Japan's small and medium-sized enterprises, through additional forms of finance and loans for these smaller companies. These have been ailing recently and find it difficult to raise finance from banks.

■ Steps to promote the "globalisation" of Japan's industry, by bringing industrial standards into line with international norms in areas ranging from construction to the transport sector.

■ Reaffirmation of Japan's commitment to its planned "big bang" deregulation process. It will be announced, for example, that life assurance companies will start distributing investment trusts soon.

■ Reaffirmation of Japan's other deregulation plans, in areas such as telecommunications.

Few of these measures are entirely new.

But most are likely to be welcomed in the longer term by analysts – and by the US government, which has long been pushing for faster market-based reforms in Japan.

But the problem is that few economists expect the reforms in themselves to deliver much of a short-term economic boost.

Consequently, the real focus of attention will shift to the next round of the policy process – negotiations between politicians and Ministry of Finance about next year's change to the tax regime.

For the moment, the Finance Ministry remains opposed to net tax reductions or to suggestions that tax cuts could be financed by issuing new bonds.

But pressure for these cuts is building: Larry Summers, US deputy Treasury secretary, appears to have called for such measures in a meeting with the Japanese government yesterday, and these calls are supported by some in the ruling Liberal Democratic party.

Consequently, the government is likely to give hints today that it is preparing reforms in areas such as corporate and property tax. It may even indicate that it is considering more radical measures.

But the details will probably not emerge until the tax negotiations are concluded next month. The policy striptease is far from over.

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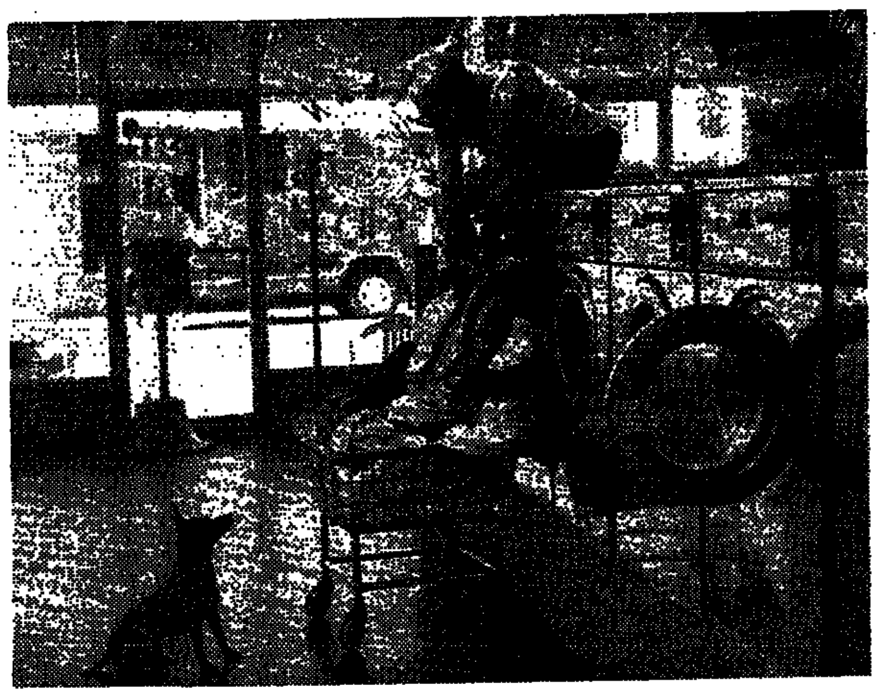
Success driven by specialty chemicals found, for instance, in coatings and printing inks – market launch on January 1, 1998



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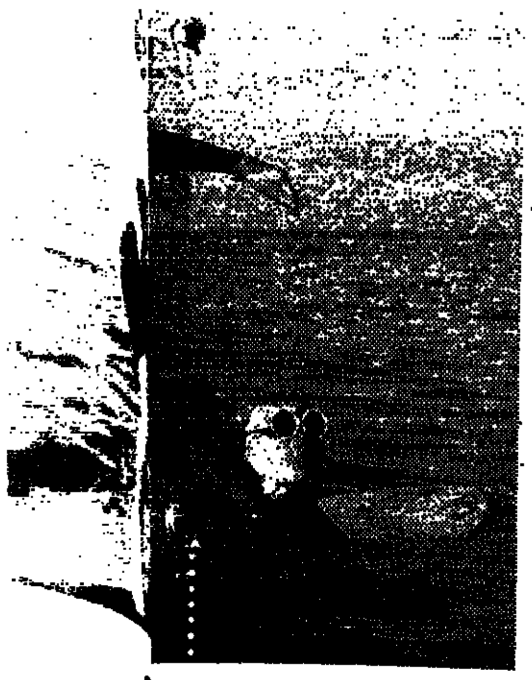

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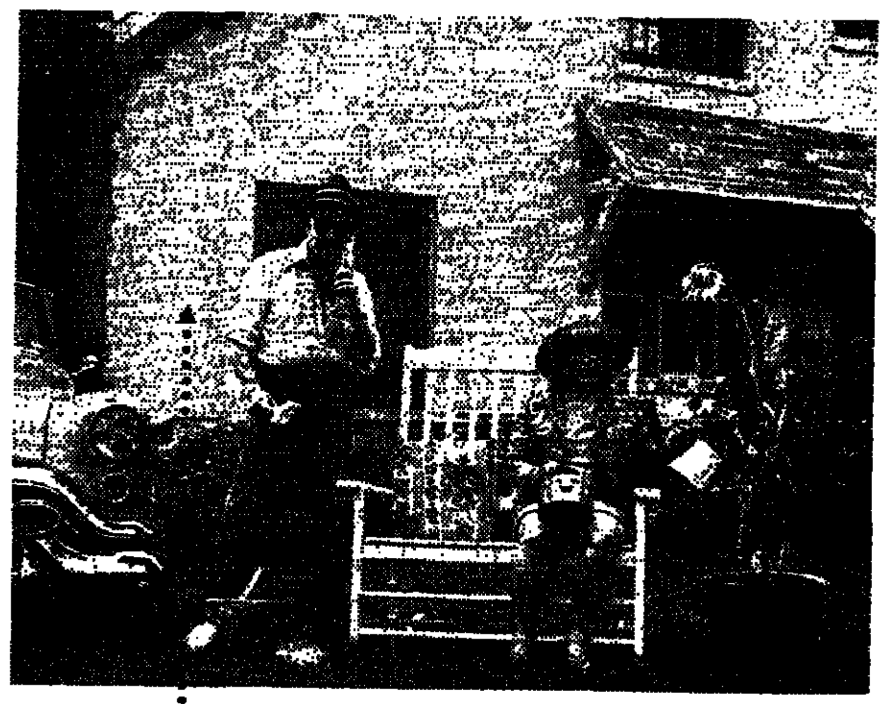

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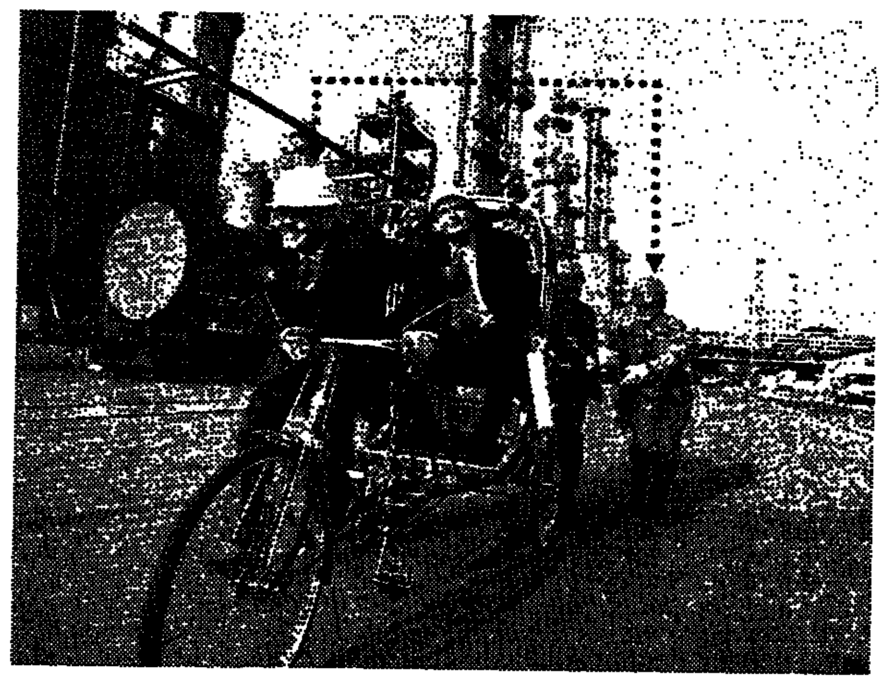

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Discover The Link To Life

BAe rebuffed over appeal for $200m Airbus aid

By Robert Peston, Political Editor

The government has dashed British Aerospace's hopes of receiving £120m ($203m) in public funds for its participation in two new Airbus aircraft, arguing that the company already has sufficient resources of its own.

BAe has, however, made a last-ditch appeal to the prime minister to reverse the decision. Its approach has overtones of the successful lobbying effort by the Formula One motor racing sector to obtain exemption from a proposed tobacco sponsorship ban.

Any sign that Tony Blair, the prime minister, is intervening is certain to attract much attention. "I would say there was no chance of the decision being reversed," said a government member, "but after the Formula 1 volte face I cannot be 100 per cent certain."

The aircraft manufacturer's request for public finance, which would have been given on commercial terms, was backed by the government's Department of Trade and Industry. If granted, the government would have expected ultimately to make a profit.

However, the Treasury ruled against it. "BAe is a big company with a strong balance sheet," said a minister. "There is no good reason for us to put money in, especially at a time when there are a whole range of competing claims on limited public funds."

The DTI has accepted the Treasury decision, although there were signs yesterday that it was unhappy about it. "One wonders when, if ever, the Treasury will take decisions with a view to generating growth rather than always looking to save money," said a government member.

Ministers denied that the decision appeared strange in the light of last week's approval of a £200m government investment in Rolls-Royce engines, which has been named as the sole engine supplier for the new A340 aircraft.

"The two decisions are completely consistent," said a government member. "Rolls-Royce has a much smaller balance sheet than BAe's and is far less successful, so its case for help was much stronger."

The discomfort of BAe executives has been heightened because the UK has been urging other governments to help consolidate and develop the European aerospace industry so that it can compete with Boeing of the US, which this year strengthened its world leadership by acquiring McDonnell Douglas.

BAe has been making threatening noises about moving some of its manufacturing to other European countries, where it feels more confident of receiving public funding. Ministers regard these threats as empty.

The request from BAe for funds related to the Airbus 340-500 and the A340-600. Airbus Industrie had wanted to announce them at this week's Dubai air show, but this has been delayed until the question of how BAe will finance its share of the project is resolved.

The Airbus partners are BAe, Germany's Daimler Benz, Aerospatiale of France and Casa of Spain. In contrast to the UK, Germany and France have both said they will provide financial help to the project.

Cut-price airline, Page 19

Market wants a narrower morning

Stock exchange is concerned over price spreads in new automated trading

The London Stock Exchange is looking at ways of improving the working of its new automated trading system in the first hour of daily trading.

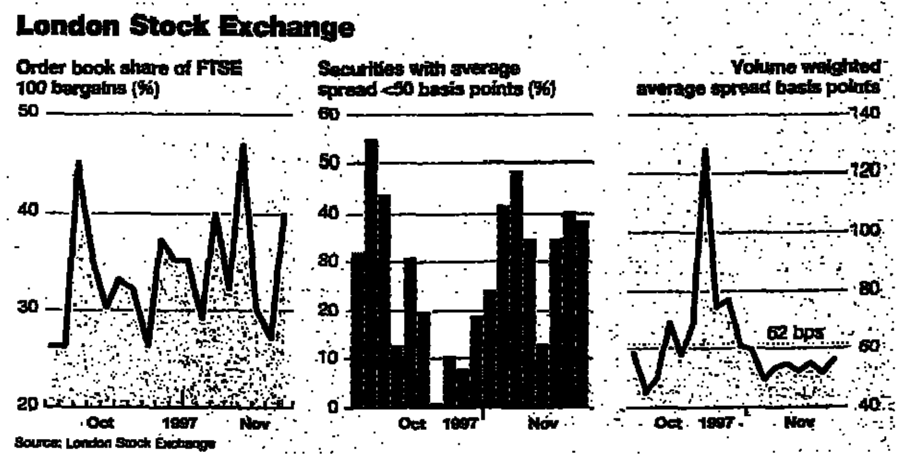
In the first detailed analysis of trading patterns in the four weeks since the new electronic order book was launched, the exchange has been encouraged by signs that spreads between buying and selling prices are narrowing.

But very few orders are being placed on the system in the first 30 to 40 minutes of trading, with the result that spreads in this period are very wide.

Some dealers have complained that the new system has produced wider spreads than under the old market-making system, exacerbating the recent volatility in world stock markets.

Under the old system, marketmakers quote prices on screen but bargains are only agreed over the telephone. In the new system, an order is executed automatically whenever it matches another order on the book.

Gavin Casey, the exchange's chief executive, said the new system had demonstrated its robustness in the most difficult possible market conditions.



The exchange's analysis shows that the spread between best buying and selling prices, which used to average 62 basis points in the old system, jumped to twice that on October 28, when the FTSE 100 index was down 8.5 per cent at one point during the day.

Since then, however, spreads have narrowed, averaging between 50 and 55 basis points so far this month.

The pattern over the course of the day, however, is very different. The average spread at 08h30 London time, when the market opens, has been over 200 basis points, and it is not until 09h30 or 10h00 that spreads drop below the old benchmark of 62 basis points. Thereafter, however, the average hovers around 50 basis points.

Stock exchange officials are concerned about the lack of early liquidity but unsure what to do about it.

Martin Wheatley, head of markets development, said the system had shown up the most liquid stocks, such as British Telecom, which are trading on very tight spreads. But even relatively liquid stocks can see their spreads widen suddenly. Bass, for example, has traded with a gap of less than 5 pence between buying and selling prices for 68 per cent of the time, and less than 10 pence for a further 28 per cent. Yet the spread has widened to as much as 65 pence, or more than 7 per cent, for short periods.

Other stocks, such as Schroders, where the shares are tightly controlled, are showing very wide spreads. This can lead to volatile prices, as orders are picked off at one end of the spread or the other.

This may be an argument against extending the order book to the smaller FTSE 250 companies. The exchange plans to review this next year.

Overall, the order book is handling an average of 34 per cent of FTSE 100 trades, and 37 per cent by value. This is a little below the exchange's original target of 40 per cent by the end of the year, but officials are encouraged.

"For the major firms the order book is effectively 50 per cent of their volume and is the major source of pricing information," Mr Wheatley said.

That does not soothe some users. One large UK fund manager complained: "You've got to have 50-60 per cent of trades going through the order book. Unless it's handling the bulk of trades, you are always going to have doubts about whether you are getting the right price."

But even some of the most persistent critics of the way the exchange handled the introduction of the order book are pleased with the way the system is operating. Gordon Lawson of Salomon Brothers said: "I think the stock exchange should be congratulated for doing an excellent job."

George Graham

'Fat cat' attack by minister angers company

By David Wighton, Political Correspondent

Thames Water yesterday accused the Treasury of failing to check the truth of damaging allegations about the salary of its chairman before Gordon Brown, the chancellor of the Exchequer, launched a renewed attack on corporate "fat cats."

Mr Brown was said by aides to have been "greatly angered" at reports that Sir Robert Clarke, the chairman of Thames Water, was to receive an increase in his £247,000 ($417,430) salary despite a reduction in his responsibilities. The company is the privatised supplier of water to London and much of southern England.

The chancellor, in Brussels for a meeting of European finance ministers, said he was not prepared to tolerate a "new round of boardroom irresponsibility" over salaries in privatised utilities.

"This sort of affair sends out the worst possible signal at a time when hard decisions on pay have to be made across every sector," Mr Brown said.

However, Thames Water denied that there was to be any significant reduction in Sir Robert's responsibilities and said it was sorry that "nobody had picked up the phone" to check the facts. The company said that any salary rise would merely reflect the cost of living increase.

"We are disappointed that the chancellor seems to have been badly advised," said Matthew Butler, director of corporate affairs.

The comments, which represent Mr Brown's first "fat cat" attack since becoming chancellor, followed reports of shareholder unrest over the extension of Sir Robert's contract. The company said it had received no expressions of concern from shareholders or analysts.

Hopes for tobacco sponsorship compromise before meeting of health ministers

Deal on Formula One sought with EU

By John Kampfner in London and Michael Smith in Brussels

Strenuous efforts were being made by Britain last night to find a face-saving compromise with other European Union governments and the European Commission over its aim to exempt Formula One motor racing from an EU-wide ban on tobacco sponsorship.

With opposition parties in the House of Commons continuing to attack the government over the details of donations from Bernie Ecclestone, head of Formula One, British officials met EU counterparts in an attempt to draft a common position before a meeting of EU health ministers on December 4.

Aides to Tony Blair, the UK prime minister, said the government was not ruling out any options before the December 4 meeting. "There are negotiations going on; our aim is to get a directive agreed that deals with the whole issue of tobaccos sponsorship in a way that doesn't wipe out sports."

Officials admitted that Mr Blair had decided to apologise for the saga because "it had reached a point where there was no point in pretending that it had been handled well".

Luxembourg, current president of the council of ministers, made clear it was determined to put the issue to a vote at the EU social affairs council. With Germany, Greece, Denmark and the Netherlands likely to vote against an all-embracing ban, Britain's position was pivotal.

EU officials said it would be "possible to imagine an exemption" for some sports longer than the 4½ years for a ban to take effect. "But it's another matter whether it could be for Formula One alone," said an official. "The UK would have to convince other countries and they might want derogations for other sports."

Padraig Flynn, social affairs commissioner, has warned the UK government that its demands could wreck attempts to reach an agreement.

UK Department of Health figures released yesterday added to pressure on ministers. Estimates produced by the University of York for the Health Education Authority put the cost of treating people with smoking-related diseases each year at between £1.4bn ($2.4bn) and £1.7bn.

"These figures show why we need tough action at both a domestic and European level to bring down rates of smoking, especially among the young," said Tessa Jowell, public health minister.

The government's credibility will come under strain tomorrow when the all-party European legislation committee of the House of Commons questions Ms Jowell. The committee may exercise its scrutiny reserve, which means that it would refuse authorisation for her to negotiate with other EU institutions until the issue had been debated in the House of Commons.

LEGAL NOTICES

UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK

In re

RCM GLOBAL LONG TERM CAPITAL APPRECIATION FUND, LTD.,

Debtor.

Chapter 11
Case No. 96 B 42635 (TLB)

NOTICE OF (I) HEARING ON APPROVAL OF DISCLOSURE STATEMENT AND (II) DEADLINE FOR FILING OBJECTIONS THERETO AND (III) DEADLINE AND PROCEDURES FOR FILING ADMINISTRATIVE EXPENSE CLAIMS AND REQUESTS FOR SUBSTANTIAL CONTRIBUTION COMPENSATION

1. PLEASE TAKE NOTICE, that the above-captioned debtor and debtor-in-possession (the "Debtor") filed a First Amended Plan of Reorganization, dated November 13, 1997 (the "Plan") and a First Amended Disclosure Statement, dated November 13, 1997 (the "Disclosure Statement"). Copies of the Plan and the Disclosure Statement are available for review at the office of the Clerk of the Court, United States Bankruptcy Court for the Southern District of New York, One Bowling Green, New York, New York 10004 (the "Bankruptcy Court") during regular business hours, or at the offices of the Debtor's undersigned counsel.

2. A hearing will commence before the Honorable Tina L. Brozman, Chief Bankruptcy Judge, on December 11, 1997 at 2:00 p.m. (Eastern Standard Time) in Room 723 of the Bankruptcy Court to consider the adequacy of the information contained in the Disclosure Statement. Any objection to the Disclosure Statement or the procedures to be set for solicitation of acceptances to the Debtor's Plan must be in writing, must state the name of the objector and its interest in the Debtor's chapter 11 case, and, if appropriate, the amount and nature of its claim, as well as the grounds for the objection and the legal basis therefor. Any objection to the Disclosure Statement or the solicitation procedures must be filed with the Bankruptcy Court and served so as to be actually received on or before December 1, 1997, at 5:00 p.m. (Eastern Standard Time) by: (i) counsel to the Debtor, Schulte Roth & Zabel LLP, 900 Third Avenue, New York, New York 10022 (Attn: Jeffrey S. Sabin, Esq.); (ii) counsel to the Shareholders' Advisory Committee, Willkie Farr & Gallagher, 153 East 53rd Street, New York, New York 10022 (Attn: Marc Abrams, Esq.); (iii) counsel to Dawes America Corporation, Cleary, Gottlieb, Steen & Hamilton, One Liberty Plaza, New York, New York 10006 (Attn: Lindsee Granfield, Esq.); (iv) counsel to Rowayton Capital Management, Inc. and Rowayton Capital Management, Ltd., Battle Fowler LLP, 75 East 55th Street, New York, New York 10022 (Attn: Edward Weisfelner, Esq.); and (v) the Office of the United States Trustee, 80 Broad Street, New York, New York 10004 (Attn: Diana Adams, Esq.). Only those objections that are timely filed and served will be considered by the Court.

3. The hearing on the Disclosure Statement and the solicitation procedures may be adjourned from time to time by announcement in open Court without written notice to parties in interest.

JANUARY 19, 1998 DEADLINE FOR FILING CERTAIN CLAIMS

4. PLEASE TAKE NOTICE, that the Bankruptcy Court has fixed January 19, 1998 at 5:00 p.m. (Eastern Standard Time) as the final date and time for filing and serving proofs of claim and requests for substantial contribution compensation and expenses accompanied by supporting documentation, for any administrative expense claims against the Debtor allowable under 11 U.S.C. § 503 and arising on or after May 14, 1996, except requests for compensation and reimbursement of expenses of court-appointed professionals, the mediator and the responsible officer in the Debtor's chapter 11 case and the claims of persons advancing funds to the Debtor pursuant to debtor-in-possession financing agreements approved by the Bankruptcy Court. Administrative expense proofs of claim and substantial contribution requests must be filed with the Bankruptcy Court and served on the Debtor's undersigned counsel so that they are actually received no later than 5:00 p.m. (Eastern Standard Time) on January 19, 1998. Administrative expense proofs of claim and substantial contribution requests that are not timely filed and served by the deadline and in the manner set forth above will be disallowed in their entirety.

Dated: New York, New York
November 14, 1997

SCHULTE ROTH & ZABEL LLP
Attorneys for the Debtor

By: /s/ Carol Weiner Levy
Carol Weiner Levy (CW-6252)
For the Firm
900 Third Avenue
New York, New York 10022
212-756-2000

UK NEWS DIGEST

Pension chiefs face censure

The government will today announce plans to "name and shame" individual directors and managers for slow progress in clearing up the pensions mis-selling scandal. The move, which intensifies the government's campaign to resolve the debacle, will be set out by Helen Liddell, economic secretary at the Treasury, in a statement to the House of Commons.

It reflects her impatience at the slow pace of progress being made by some companies, despite tough deadlines for resolving cases. While some are meeting their targets, some "are in complete and utter denial", she says.

The statement will launch the second stage of her strategy to get some 600,000 priority mis-selling cases cleared up by the end of next year. So far the government has concentrated on "naming and shaming" companies, while regulators have fined and reprimanded them for mis-selling and for slow progress.

The plan to name individuals will be linked to moves by the Personal Investment Authority, the watchdog for the private investor, to introduce individual contracts for the directors, managers and sales representatives of the companies it regulates. *Christopher Brown-Humes*

■ SOFTWARE SUPPLY

US group chooses London HQ

The government yesterday welcomed the decision by Computer Associates of New York, one of the largest software groups in the world after Microsoft and Oracle, to site its £100m ($169m) European headquarters near London's Heathrow airport.

Ian McCartney, a junior industry minister, said the company's decision "confirms [British] pre-eminence in advanced technology. The new headquarters will be the hub of Computer Associates' operations, finance and research and development within the European Union".

CA is the latest US software giant to announce plans to expand its operations in the Thames Valley area to the west of London. The area is already home to eight of the 10 largest US information technology companies including Microsoft, Oracle and Sun Microsystems. *Paul Taylor*

■ TELECOMMUNICATIONS

KLM call centre boost for city

KLM, the Dutch airline, and its subsidiary Air UK are to build a reservation call centre at Norwich Airport in eastern England. Work will start this month on the 3,500 sq m KLM/Air UK centre, next to the airport terminal building. It will handle all calls originating in the UK for bookings on Air UK flights, and from late next year it will handle such calls for partner airlines including KLM and Northwest Airlines.

Air UK handles 1.2m reservation calls a year. It expects this to rise to more than 3m by 2002, and hopes eventually to handle calls under contract to companies outside the airline industry. The announcement is an important step in Norwich's bid to become one of Britain's telephone call centre capitals. About 1,600 people are employed in call centres in the city. *Brian Groom*

■ ROYAL SHAKESPEARE COMPANY

Prince deplores 'funding agonies'

The Prince of Wales today described the Royal Shakespeare Company as being in a "perpetual state of crisis management" after hearing how the company had been plunged £1.6m ($2.7m) in debt by lack of public funding. The prince is president of the company.

Speaking at the RSC annual meeting in Stratford-upon-Avon in the English Midlands, the prince praised the company's staff as being "dedicated and talented" in the face of the many "agonies and frustrations of funding".

"I am very disturbed by the many difficulties and frustrations that people running arts organisations in this country experience," he told the Court of Governors meeting at the Royal Shakespeare Theatre.

He called for greater importance to be given to the arts, saying: "More and more people tend to feel that the arts are given a secondary or even tertiary importance in this country. As a result of that, it is becoming increasingly difficult to get the private sector funding which is needed."

● Dozens of arts organisations may have to scale down their expansion plans following the Arts Council's decision to reduce the amount of National Lottery subsidies available for capital projects, Alice Rawsthorn writes. The council announced yesterday that it will allocate roughly £125m of its total annual lottery allocation of £200m for the next eight years to capital projects such as building new art galleries and theatres or extending existing ones. Jeremy Newton, the council's lottery director, said the reduction was triggered by the government's decision to divert part of the lottery money hitherto given to the arts to a sixth "good cause" devoted to health and education projects.

■ TOURISM

Travel chief forecasts 2m EU jobs

Tourism could create 300,000 new jobs in the UK, 2m in the European Union and 100m worldwide over the next decade, a travel industry official said yesterday.

Geoffrey Lipman, president of the World Travel and Tourism Council, the London-based group of 100 industry chief executives, said governments were beginning to recognise that travel and tourism was one of the most effective ways of tackling "the scourge of unemployment". Tourism employs 1.8m people in the UK, a figure which is equivalent to one in seven of the working population. *Scheherazade Daneshkhu*

N Ireland weapons handover sidelined

By Jimmy Burns and John Murray Brown in London

The British and Irish governments yesterday moved to put the issue of weapons "decommissioning" to one side, anxious not to disturb the delicate state of Northern Ireland's political negotiations amid growing uncertainty about the Irish Republican Army's ceasefire.

The first detailed report on the decommissioning issue by retired Canadian General John de Chastelain was due to be submitted yesterday to a sub-committee of the multi-party talks chaired by former US Senate majority leader George Mitchell. But the general's office said the document, which has still to be agreed by the two governments, would not be ready until early December.

The report, submitted in draft form to the governments two weeks ago, is thought to reflect the general's determination to see paramilitaries begin to hand over arms by May, when the talks are due to conclude. The report provides a "road map" on how arms might be decommissioned. It is understood to include the suggestion that the terrorists could destroy their own weapons in the presence of independent observers – an idea endorsed by Sinn Féin, the political wing of the IRA.

However, the delay reflects concern not to upset the negotiations as parties embark on a round of bilateral meetings to identify common ground. Paul Murphy, political development minister for the region in the British government, said the negotiations were entering "a more testing time".

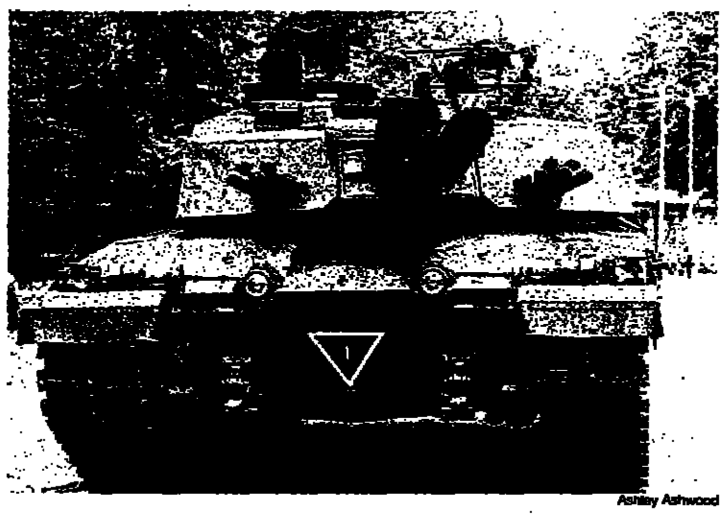
Over the weekend, Francie Molloy, one of Sinn Féin's negotiating team, had appeared to signal a return to violence if the talks collapsed. But yesterday, Mr Molloy, a local councillor in the Northern Ireland town of Coalisland, said his comments to a republican meeting in the region on Saturday had been taken out of context. He said his suggestion "we should return to what we know best" was referring to "dialogue and negotiation" and not a return to "armed struggle".

While UK ministers insist the ceasefire is intact, there is growing concern in intelligence circles that the Sinn Féin leadership may be looking to resume hostilities to appease hardliners and avoid splitting the organisation.

When appointed in September, General de Chastelain said he hoped to be in a position to talk directly to the IRA "within weeks". He has yet to do so amid uncertainty over the IRA's attitude towards the peace process.

Some UK intelligence sources are thought to be pessimistic about the prospect of the ceasefire holding until May 1998. Intelligence officials predict terrorist attacks in the coming weeks by IRA activists who have access to small caches of weaponry and explosives.

These hides are distinct from the bulk of the IRA's military arsenal which is thought to be in a small number of dumps on both sides of the border, the location of which is known only to a small number of senior IRA officials.



Ashley Ashwood

Tank at last cleared for service

By Alexander Nicoll, Defence Correspondent

The Challenger 2 battle tank, delayed by production problems for two and a half years, has passed reliability tests and will enter service with the British army next year, the government announced yesterday.

John Spellar, a junior defence minister, said in a parliamentary answer that the tank (pictured) had completed three sets of trials. Vickers, the manufacturer, had met milestones set by the Ministry of Defence and would deliver the first consignment of 38 tanks to the Royal Scots Dragoon Guards by June next year. Sir Colin Chandler, Vickers chairman, said that, after the rigorous tests, "Challenger 2 is now demonstrably the most reliable main battle tank in the world".

Vickers said a week ago that it had won a £110m ($186m) order to supply Oman with 20 Challenger 2 tanks. It also hopes to receive confirmation soon of an order for 40 tanks from Qatar.

Vickers delivered the first of the UK ministry's order for 386 battle tanks in 1994. But problems were quickly identified, particularly in the sighting and gun control equipment in the turret. In 1995, the ministry rejected deliveries and demanded that the reliability problems were dealt with. This forced Vickers to re-vamp completely production methods at its plants in northern England.

The Challenger 2 problems were highlighted in a report earlier this year by the National Audit Office, which recommended that the defence ministry include reliability testing as part of acceptance trials in all its contracts.

The report by the audit office, the government spending watchdog, also identified delays and cost over-runs in many other projects. The report has been a powerful spur to reforms of the defence procurement process.

Oil suppliers warn of tax risk

By Arkady Ostrovsky in London

International oil companies and their suppliers will today tell the Treasury that any additional tax on offshore oil production will damage the industry.

The UK Offshore Operators' Association is to meet Dawn Primarolo, financial secretary to the Treasury, less than two weeks before the government's Green Budget, which the industry fears might change the present fiscal regime.

"We want to tell the government that any additional tax on oil companies, 'green' or not, might permanently damage the industry, which employs 380,000 people and accounts for 20 per cent of the UK's total industrial investment every year," the association said yesterday.

Companies have been liable for corporation tax of only 31 per cent on new oil and gas fields since the abolition of the petroleum revenue tax in 1993. But the oil industry is worried that the government might re-introduce the revenue tax on new fields and remove tax relief on decommissioning of oil rigs.

Academic critics, however, say the government is not getting a fair tax share of North Sea profits. They say the Norwegian government's tax-take per barrel in 1996 was £4.81 ($8.12) compared with £2.40 in the UK.

The offshore association says the comparison is not valid because the prospects of finding a big oil field in the UK are much lower than in the rest of the world.

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LEGAL NOTICES

A.M.P. (U.K.) Public Limited Company (the "Company")

NOTICE OF A MEETING

of the holders of the £150,000,000 13% Bonds due 2015 (the "Bonds")

NOTICE IS HEREBY GIVEN *that a Meeting of the holders* (the "Bondholders") of the £150,000,000 13% Bonds due 2015 constituted by a trust deed (the "Trust Deed") dated 13 November 1990 and made between A.M.P. (U.K.) Public Limited Company and The Law Debenture Trust Corporation p.l.c. (the "Trustee") will be held at 5 The North Colonnade, Canary Wharf, London E14 4BB on 10 December 1997 at 10.00 am for the purpose of considering and, if thought fit, passing the following resolution, which will be proposed as an Extraordinary Resolution in accordance with the provisions of the Trust Deed.

Extraordinary Resolution

"That this Meeting of the holders (the "Bondholders") *of the* £150,000,000 13% *Bonds due* 2015 (the "Bonds") of A.M.P. (U.K.) Public Limited Company (the "Company") constituted by a trust deed (the "Trust Deed") dated 13 November 1990 and made between the Company and The Law Debenture Trust Corporation p.l.c., as trustee (the "Trustee"), hereby

(a) sanctions and approves the redemption by the Company of all (but not some only) of the Bonds on the Revised Redemption Date at the *Revised Redemption Price, and the* payment on the Revised Redemption Date of accrued interest up to and including the Revised Redemption Date, such that the Company shall then be bound to redeem the Bonds on such date at such price and to pay interest accrued thereon in accordance with the terms of the Trust Deed up to and including the Revised Redemption Date, subject to the provisions of Condition 6 of the Trust Deed; and for the purposes of this resolution "Revised Redemption Date" *shall mean the second business day* following the date on which this resolution is passed, and "Revised Redemption Price" shall mean the price at which the yield on the Bonds is equivalent to 0.15 per cent above the semi-annual gross redemption yield to be expressed as a percentage rounded down to three decimal places (0.0005 being rounded down) and to be calculated on the basis indicated by the *Joint Index and Classification Committee of the Institute and Faculty of Actuaries as reported in the Journal of the Institute of Actuaries*, Vol. 105, Part I, 1978, page 18 on the 8 per cent Treasury Stock due 2015 (the "Reference Stock") to be ascertained as at 11.00 am on the date on which this resolution is passed by taking the middle market price of the Reference Stock at such time on such day as determined by Barclays de Zoete Wedd Limited;

(b) assents to the modification of the Trust Deed, and in particular of Condition 5 of the Trust Deed, contained or inherent in this resolution;

(c) sanctions every modification, abrogation, compromise and arrangement in respect of the rights under the Trust Deed of the Bondholders of the Bonds necessary to give effect to this resolution; and

(d) authorises and directs the Trustee to execute, perform and concur in all such deeds, instruments and acts as may be considered by it to be necessary or expedient for and incidental to the implementation of this resolution."

The Company considers that the proposed modifications contained in the Extraordinary Resolution set out above are fair and reasonable in the circumstances and, accordingly, the Company strongly urges all Bondholders to vote in favour of the Extraordinary Resolution.

The attention of Bondholders is particularly drawn to the quorum required for the Meeting and for an adjourned Meeting which is set out in paragraph 2 of Voting and Quorum below.

Copies of the Trust Deed (including the Terms and Conditions of the Bonds) referred to in the Extraordinary Resolution set out above are available for inspection by Bondholders at the specified offices of the Paying Agents set out below.

In accordance with normal practice the Trustee expresses no opinion on the merits of the proposed modifications but has authorised it to be stated that it has no objection to the Extraordinary Resolution being submitted to the Bondholders for their consideration.

Voting and Quorum

1. A Bondholder wishing to attend and vote at the Meeting in person must produce at the Meeting either the Bond(s) or a valid voting certificate or valid voting certificates issued by a Paying Agent (as defined below) relating to the Bonds in respect of which he wishes to vote.

   A Bondholder not wishing to attend and vote at the Meeting in person may either deliver his Bond(s) or voting certificate(s) to the person whom he wishes to attend on his behalf or give a voting instruction (on a voting instruction form obtainable from the specified offices of the Paying Agents set out below) instructing a Paying Agent to appoint a proxy to attend and vote at the Meeting in accordance with his instructions.

   Bonds may be deposited with any Paying Agent or (to the satisfaction of such Paying Agent) held to its order or under its control by Cedel Bank, société anonyme, or the Operator of the Euroclear System or any other person approved by it, for the purpose of obtaining voting certificates, not later than 48 hours before the time appointed for holding the Meeting (or, if applicable, any adjournment of such Meeting) or giving voting instructions in respect of the relevant Meeting. Bonds so deposited or held will not be released until the earlier of the conclusion of the Meeting (or, if applicable, any adjournment of such Meeting) and the surrender of the voting certificate(s) or, not less than 48 hours before the time for which the Meeting (or, if applicable, any adjournment of such Meeting) is convened, the voting instruction receipt(s) issued in respect thereof.

2. The quorum required at the Meeting is two or more persons present in person holding Bonds or voting certificates or being proxies and holding or representing in the aggregate two thirds in principal amount of the Bonds for the time being outstanding (as defined in the Trust Deed). If within fifteen minutes from the time fixed for the Meeting a quorum is not present *the Meeting shall stand adjourned for such period*, not being less than 28 days nor more than 42 days, and to such time and place, as may be appointed by the chairman of the Meeting. At such adjourned Meeting the quorum shall be two or more persons present in person holding Bonds or voting certificates or being proxies and holding or representing in the aggregate one-third in principal amount of the Bonds for the time being outstanding.

3. Every question submitted to the Meeting will be decided on a show of hands unless a poll is duly demanded by the chairman of the Meeting or the Company or by one or more persons holding one or more Bonds or voting certificates or being proxies and holding or representing in the aggregate not less than two percent in principal amount of the Bonds for the time being outstanding. On a show of hands every person who is present in person and produces a Bond or voting certificate or is a proxy shall have one vote. On a poll every person who is so present shall have one vote in respect of each £1,000 principal amount of Bonds so produced or represented by the voting certificate so produced or in respect of which he is a proxy.

   To be passed, the Extraordinary Resolution requires a majority in favour consisting of not less than 75 per cent of the votes cast. If passed, the Extraordinary Resolution will be binding on all the Bondholders, whether or not present at such Meeting and whether or not voting, and upon all the holders of the coupons relating to the Bonds.

Principal Paying Agent

The Chase Manhattan Bank, 125 London Wall, London EC2Y 5AJ

Paying Agents

Chase Manhattan Bank Luxembourg S.A.
5 Rue Plaetis
L-2338 Luxembourg

Banque Bruxelles Lambert S.A.
24 Avenue Marnix
B-1050 Brussels

BY ORDER OF THE BOARD
A.M.P. (U.K.) Public Limited Company
The Pearl Centre
Lynch Wood
Peterborough PE2 6FY

***Note:** The Company has discussed the matters referred to in the above Notice of Meeting with the Association of British Insurers, and accordingly Bondholders representing 50 per cent of the Bonds have indicated their support for the proposal.*

18 November 1997

CONTRACTS & TENDERS

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No. 005418 of 1997

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CHANCERY DIVISION
COMPANIES COURT

IN THE MATTER OF THOMSON DIRECTORIES LIMITED
- and -
IN THE MATTER OF THE COMPANIES ACT 1985

NOTICE IS HEREBY GIVEN that a Petition was on 30th October 1997 presented to Her Majesty's High Court of Justice for the confirmation of a reduction of the Share Premium Account of the Company in the amount of £18,366,342.

AND NOTICE IS FURTHER GIVEN that the said Petition is directed to be heard before the Registrar of the Companies Court at the Royal Courts of Justice, Strand, London, WC2A 2LL on 26th November 1997.

ANY creditor or shareholder of the said Company desiring to oppose the making of an Order for the confirmation of the said reduction of the Share Premium Account should appear at the time of hearing in person or by Counsel for that purpose.

A copy of the said Petition will be furnished to any such person requiring the same by the under mentioned solicitors on payment of the regulated charge for the same.

Gouldens of 22 Tudor Street, London, EC4Y 0JJ Solicitors for the above named Company (Tel: 0171 583 7777).

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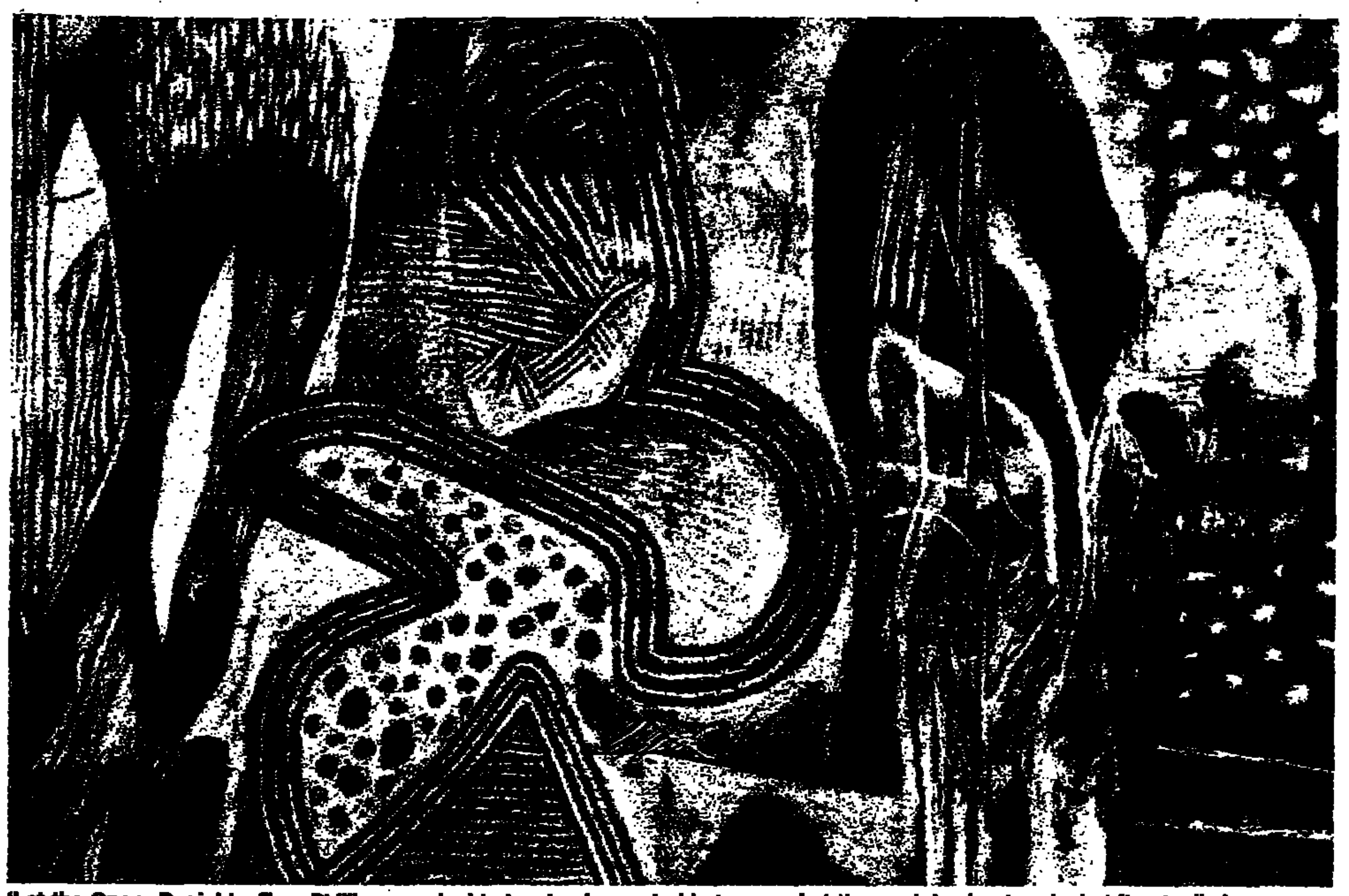

'Let the Opera Begin' by Tom Phillips: a palpable tension is created between what the work is about and what it actually is

Idea-driven and totemic

Tom Phillips is a true conceptual artist, writes **William Packer**

Tom Phillips likes to mark the periods of his life with a signal event. At 50, it was an invitation cricket match at The Oval, a day which still lives pleasurably in the memory. Now at 60, it is something rather more reflective and certainly more sober, but none the less self-celebratory for that.

Two complementary exhibitions, small in themselves but together substantial, mark the climacteric: a show of recent and current work at the South London Gallery, between Peckham and Camberwell; and at Dulwich, a succinct retrospective to give the context. These locations are all part of the plot: for Phillips, born in Clapham and resident these many years in Camberwell, is very much a South London boy.

Drawing to a Conclusion, the title of the Dulwich show, effectively applies to both. For Phillips has been drawing conclusions from the start, and will go on, I hope, for a long time yet. He is a true conceptual artist in that, whatever its final manifestation might turn out to be, the work is always idea-driven. There is no intuitive, self-forgetful engagement from which the work might at last emerge. Rather a system is set up, a programme established, a series embarked upon, rules drawn up. Some go on for years.

An element of chance of course comes into it, but as with the professor setting up his retorts, or the little boy running the train into the buffers, the accident is foreseen. And while the fun lies in picking up the pieces, the justification rests upon the supposed seriousness of the experiment. Phillips always falls back heavily upon the literary source and the arcane reference. And rather than leave them to tick away beneath the surface, like unexploded bombs, he always explains them, spells them out, lest his erudition escape us. No tactic more irritates a sceptical English critic, as R.B. Kitaj lately found out.

But what saves Phillips is that, in spite of himself and any ostensible preoccupation, he remains at heart a maker. Not for him the easy way of taking the proposition for the realisation. Everything, work-ethic-worthy, has to be achieved. The result is that so often in what he does, and always in the best of it, a palpable tension is created between what the work is about and what it actually is.

He seems to find something difficult, or at least inhibiting, in the use of oil-paint or acrylic: a seriousness of expectation, perhaps, that gets in the way. And yet even then, whenever he begins to lose himself in his subject – in some, not all, of the portraits for example, and especially the drawings – he is ever capable of achieving a genuine simplicity and directness.

His portrait of the poet and critic, Edward Lucie-Smith, has an African tribal sculpture in the background, in which interest both artist and sitter count themselves expert, together with one of Phillips own "terminal greys" paintings, consisting of stripes made one by one from the mixture of colours left on the palette at the end of each day's work. Rather arch an exercise, one might think. But wait a minute. That painting now takes on a totemic quality that complements the sculpture, and suddenly we notice that over all the years there has been in Phillips' work a quality of mark and pattern that marches very closely with tribal and aboriginal traditions. We realise that the paraded, scholarly interest is actually something personal, natural and deeply-felt. The conjunction here of these props in a portrait, far from being over-weening, is in the event both apposite and oddly modest. And the portrait is one of the best he has ever done.

If his painting is habitually stiff in its handling, as though he doesn't quite trust himself in the use of it, the drawings in charcoal and pastel, and some of his works in watercolour, are so free and celebratory on the surface, done with so light and intuitive a touch, that they could almost be by another hand. But yet again the contradictions and caveats set in. It isn't quite so simple as to say stiff bad, free better.

Among his most contrived and self-conscious works are the text reliefs, filigree screens of wire words, the letters fused together. Some are biblical and set out in the form of a cross, others simply a block of Phillips' own poetry. The drawings for them are lighter and more exploratory perhaps, the wire as stiff as can be. And in both cases they are rather hard to read, and all the more intriguing for their ambiguity. They are strange and rather beautiful things. He makes quilts too, to which they obviously relate. And here again the particular theme is the least engaging aspect. To make a quilt of that harvest of the Soho phone booth, the cut-up calling-cards of prostitutes, and call it "women's work", is merely to reiterate a tedious piety of feminism. The things themselves, as things, are rich and lively and unexpected. Tom Phillips is always the better artist for taking himself unseriously, and by surprise.

Tom Phillips – *Sacred and Profane*: South London Gallery, 65 Peckham Road SE5, until November 23. Tom Phillips – *Drawing to a Conclusion*: Dulwich Picture Gallery, London SE21, until January 18.

Opera/**David Murray**

Falstaff tamed

The English National Opera has a new Verdi *Falstaff* – a co-production with Opera North, though re-vamped since its Leeds premiere last season. (Laura Hopkins' sets are still on the scale of Leeds's Grand Theatre: on the larger Coliseum stage, black panels have to narrow the visible space down to that.) Almost all of the cast are new. It is a mild and pleasant affair; the emphasis is on amiable comedy, neither rudely farcical nor threatening, and mostly it is very well sung.

Alan Opie's Falstaff is as warm, solid and communicative as expected. The producer Matthew Warchus – a fine director of straight plays, but relatively new to opera – shows a reluctance to give honest operatic farce its head. Some colleagues were delighted by that restraint: I wanted more unrestrained cartoons.

In Act 1 Falstaff's comical terrorising of his minions Bardolph and Pistol (Anthony Mee and Mark Beesley) is muted to tameness, and there is no sense that his addressing two identical seduction-letters to wealthy married ladies is preposterously disgraceful. In Act 2 Mistress Quickly's famous, ironical "Reverenza" are underplayed; and the Act 3 midnight shivaree in Windsor Great Park, with a lot of very small children in cute animal-suits, looks like a Sunday-school pageant.

I wouldn't for a moment suggest that *Falstaff* has a "dark" side that wants bringing out; it has no such thing. What the 79-year-old Verdi set out to compose was a pure *commedia lirica*; but Warchus has tamed Falstaff's rampant outrageousness, and the feline fury it prompts from his intended seducees; whereas Verdi's music for these things presupposes unabashed actorly extravagances, almost *commedia dell'arte*, to embody it.

The tone of the ENO staging is "nice": frightfully English, pretty, distinctly subdued. Far from bringing *Falstaff* back to native territory, it only suppresses its lusty Italian roots. The scene where the chastened Falstaff struggles back out of the Thames, crying for restorative ale, is set in a weird de Chirico townscape, not remotely like Windsor nor anywhere else.

The finale at Herne's Oak locates that haunted tree invisibly between the stage and the audience; all the rest – what we actually see – is barren conifers, neither here nor there, let alone haunted, and certainly nowhere near Windsor.

Still, we have Rita Cullis's elegantly grown-up, urbane Mistress Ford to set against Opie's hearty Falstaff, as well as her partner Sarah Connolly's Mistress Page, quietly bright and knowing. If Catherine Wyn-Rogers hasn't been allowed to make her Mistress Quickly the overweening Dickensian figure that she ought to be, she sings her with depth and appealing grace.

The constantly thwarted young lovers, Nannetta and Fenton, are charmingly sung by tiny Mary Plazas and the tall American tenor Charles Workman – though she is denied her hint of magical faery elevation by the prosaic staging, and his cultivated, British-sounding voice reminded us that there is really no Fenton like a small, brightly ringing Italian tenor. The smaller roles are well taken.

The conductor Oliver von Dohnányi, sound and sensitive, is friendly to his singers too (if not always unanimous with them, on this first night). There is no naughty mischief in the Herne's Oak scene – it would help if Amanda Holden's smooth translation found pricklier English words for the children's "Pizzica, pizzica!" while they poke the frightened Falstaff. But it all goes down well enough: just a little bland.

In repertory at the Coliseum, London WC2 until December 3, returning with new principals next June.

Alastair Muir

Alan Opie and Rita Cullis

Theatre/**Alastair Macaulay**

Good omens for Wales

Theatr Clwyd has just begun a new regime under the direction of Terry Hands. Two plays are alternating in repertory in each of its two auditoria. This means that you can sometimes catch, as I did, four different plays on four consecutive nights; or that you can space your visits to all four plays over an extended period.

This repertory system has wrong-footed some of the regular audience, who wrongly assume that if a production is not on, then it has closed altogether. But the age range of the audiences is large, and standards onstage are good – one of the plays won an immediate standing ovation. As always with repertory companies, it is fun to watch actors change from one role to another; and in each production the ensemble playing is excellent. Several of the actors are well-known to Welsh TV audiences and – though the repertory is all in English – several of them have Welsh as their first language.

The standing ovation was for *Rape of the Fair Country*, Manon Eames's adaptation of the Alexander Cordell novel about a Welsh family caught up in the Chartist movement of the early 19th century. It is a memory play: Iestyn Mortymer recalls the warmth and principles and loves and divisions of his family and his neighbours. Coal mining, the early trade unions, political oppression, chapel vs church sectarian rivalry: these start in the background, and gradually advance into the foreground. Meanwhile Iestyn grows up, learns to fight, loses his virginity, falls in love. One sister gets raped and killed; his father, after much resistance, joins the union but gets killed in a mining disaster; the show moves from bright to dark, from blitheness to fierce resistance. If the production, as directed by Tim Baker, is not quite a musical, it is not for want of trying: sometimes, amid the stomping libertarians anthems, I thought I was watching *Les Mis*. More often I thought it had been staged by the Welsh Tourist Board: there is a sentimental glow about even its bleakest moments.

The other three plays come from the era when Terry Hands was young: Joe Orton's *Entertaining Mr Sloane* (1964), Peter Shaffer's *Equus* (1973), and Mike Leigh's *Abigail's Party* (1977). These are famous plays that have not dated, but they suggest either that Hands is not interested in the more advanced plays from the last 20 years or that he does not believe Theatr Clwyd audiences are ready for them. However, *Abigail's Party* has been – with its author's consent – updated and relocated to Wales; and the director, Fiona Buffini, has used Leigh's original version, so that some of the most famous features of the TV version are absent.

Which all helps to make this *Abigail's Party* fresh. It is easy to believe in all the separate chemistries between the five characters in this suburban neighbourhood, and the least utterance speaks volumes. (*Angela, brightly:* "I got very drunk at our wedding, didn't I, Tony?" *Tony, morosely and emphatically:* "Yes".) In such a context, the more gross remarks (*Bev, with bitter courtesy to her husband:* "Lawrence, if I'd wanted someone to put a damper on the idea, I'd have asked you first") strike home with full comic horror. The climax is the dance, in which Bev (Vivien Parry), clamping Tony (Steffan Rhodri) ever more tightly to her, runs her hands ardently through his hair: which – a fabulous if accidental touch – stays in its newly ruffled haystack condition for the rest of the play.

If *Entertaining Mr Sloane*, directed by Dominic Cooke, is the most flawed of the four productions, that is because the mixture of realistic danger and camp polish in Orton's text is singularly elusive. I love this play, but none of the three productions of it during the 1990s have been as funny as I have hoped. However, this production certainly had suspense, ambiguity, and enough humour if not much.

Joseph McFadden is a Scottish Mr Sloane who coolly, slyly, combines sexually provocation and heartless viciousness. Robert Blythe's apoplectic, petty bourgeois Ed and Jimmy Gardner's frail and alarmed Kemp do well. The main problem is the Kath of Lynne Verrall, an actress wholly devoid of spontaneity and fond of acting from the elbows out. In her overwrought performance, Kath's gear-changes of accent sound not pathetically funny but artfully schizophrenic.

Hands himself directs *Equus*, and, despite a couple of casting blips, directs it well. The problem here, however, is the play: Shaffer's efforts to make drama out of psychoanalysis are both clunky and formulaic. The formula is the more obvious to those who have seen a few Shaffer plays: the would-be tragic tension between innocent, wild ecstasy (the horse-blinding boy), and rational, controlled containment (the child psychiatrist). The overlapping of past and present here is also familiar from *Gift of the Gorgon*. Shaffer's real heart lies in melodrama; the way the psychoanalytical procedure of *Equus* sweeps towards climax and catharsis is at once too neat and too lurid. As the boy Alan, Oliver Ryan has real force, but would be twice as good without his "boyish" diction; and Verrall, playing his mother, gives an entirely external performance. But Frank Grimes, as the psychiatrist Dysart, steers the play with easy, intelligent, self-critical authority. The rest of the cast – including Manon Eames (yes, the adaptor of *Rape of the Fair Country*) – give him perfect support. I watched with scepticism, but confess I hung on every word. The seriousness and the cooperation of the performance are the best omens for the future of Hands's regime.

Equus, *Rape of the Fair Country*, *Abigail's Party* and *Entertaining Mr Sloane* are in Theatr Clwyd repertory until November 29, and return to repertory in February.

INTERNATIONAL ARTS GUIDE

■ AMSTERDAM

EXHIBITIONS
Stedelijk Museum
Tel: 31-20-5732911
Malevich: Works on Paper from the Khardzhiev Collection Exhibited for the First Time. 79 drawings in pencil, chalk, gouache, ink and watercolours, spanning almost the whole of the Russian avant-garde artist's career; to Jan.25

OPERA
Het Muziektheater
Tel: 31-20-551 8911
Cosi Fan Tutte: by Mozart. Netherlands Opera production, conducted by Ivor Bolton in a staging by Jürgen Flimm, with an entirely new cast; Nov 18, 21

■ BERLIN

DANCE
Deutsche Oper
Tel: 49-30-34384-01
Deutsche Oper Ballet: premiere of Rosalinde, choreographed by Ronald Hynd to music by J. Strauss; Nov 18

OPERA
Deutsche Oper
Tel: 49-30-34384-01
Aida: by Verdi. Staged by Götz Friedrich, with sets and costumes by Pet Halmen; Nov 22

■ COPENHAGEN

EXHIBITIONS
Louisiana Museum of Modern Art, Humlebaek
Tel: 45-4919 0719
www.louisiana.dk
Alberto Savinio, Paintings 1927-1952: around 30 still lifes, landscapes and mythological compositions by the relatively unknown brother of de Chirico. His work combines abstract and figurative elements, and in many ways parallels de Chirico's own; to Jan 11

■ EDINBURGH

EXHIBITIONS
National Gallery of Scotland
Tel: 44-131-624 6200
Discovering the Italian Baroque: The Denis Mahon Collection. Consisting of 17th and 18th century Italian paintings by Guercino, Guido Reni and Domenichino, among others, collected by Mahon since the 1930s. The exhibition was in London until May; to Feb 15

■ HOUSTON

EXHIBITIONS
Museum of Fine Arts, Houston
Tel: 1-713-639 7750
The Dark Mirror, Picasso: Photography and Painting. More than 300 works, the majority of them photographs, which will illustrate the relationship between the various media in which Picasso worked. The display includes self-portraits and photographs of Rousseau and Braque. The exhibition has been seen in Paris and will travel to Japan; to Feb 1

■ LONDON

CONCERTS
Barbican Hall
Tel: 44-171-638 8891
● The Sibelius Cycle: Joseph Swensen conducts the Scottish Chamber Orchestra, with violin soloist Ida Haendel; Nov 18
● The Sibelius Cycle: Sir Colin Davis conducts the London Symphony Orchestra in a programme including Symphony No. 3 and Symphony No. 4; Nov 20

OPERA
English National Opera, London Coliseum
Tel: 44-171-632 8300
● Falstaff: by Verdi. This co-production with Opera North, first seen in Leeds, is conducted by Dohnányi and directed by Matthew Warchus. Cast includes Alan Opie in the title role; Nov 19, 21
● The Magic Flute: by Mozart. Nicholas Hytner's English National Opera production, revived by David Ritch and conducted by Christopher Moulds; Nov 20, 22

Royal Albert Hall
Tel: 44-171-5898212
The Royal Opera: Otello, by Verdi. Conducted by Jacques Delacôte in a staging by Elijah Moshinsky; Nov 18, 19, 21, 22

■ LOS ANGELES

CONCERTS
Dorothy Chandler Pavilion
Tel: 1-213-972 8001
Los Angeles Philharmonic: conducted by Paavo Järvi in works by Tüür, Mozart and Mahler; Nov 21, 22, 23

OPERA
L.A. Opera, Dorothy Chandler Pavilion
Tel: 1-213-972 8001
www.laopera.org
Countess Maritza: by Kálmán. Premiered in Santa Fe this summer, this lively production by Linda Brovsky stars Ashley Putnam and is conducted by John Crosby; Nov 22

■ MADRID

OPERA
Teatro Real
Tel: 34-1-516 0600
La Monnaie: touring production of Britten's Peter Grimes. Conducted by Antonio Pappano in a staging by Willy Decker; Nov 18, 20, 22, 23

■ NEW YORK

EXHIBITIONS
Metropolitan Museum of Art
Tel: 1-212-879 5500
www.metmuseum.org
Wordrobe: show exploring the relationship of fashion to self-expression in language; ends on Sunday

OPERA
Metropolitan Opera, Lincoln Center
Tel: 1-212-362 6000
www.metopera.org
The Rake's Progress: by Stravinsky. New production by Jonathan Miller, conducted by James Levine. Cast includes Dawn Upshaw and Samuel Ramey; Nov 20

New York City Opera, New York State Theater
Tel: 1-212-870 5570
www.nycopera.com
● La Bohéme: by Puccini. Conducted by George Manahan and staged by Graziella Sciutti; Nov 18, 20, 21, 22, 23
● Marco Polo: by Tan Dun, premiered in Munich last year. New production conducted by the composer and directed by Martha Clarke; Nov 19, 22

■ PARIS

DANCE
Opéra National de Paris, Palais Garnier
Tel: 33-1-43439696
Paris Opera Ballet: mixed programme – Soir de fête by Staats, L'Arlésienne by Petit, and La Symphonie fantastique by Massine; Nov 18, 19, 21

OPERA
Opéra National de Paris, Opéra Bastille
Tel: 33-1-4473 1300
● Der Rosenkavalier: by Strauss. New production conducted by Edo de Waart in a staging by Herbert Wernicke. Cast includes Renée Fleming, Susan Graham and Barbara Bonney; Nov 20, 23
● Nabucco: by Verdi. Conducted by Pinchas Steinberg in a staging by Robert Carsen; Nov 19, 22

■ SAN FRANCISCO

OPERA
San Francisco Opera, War Memorial Opera House
Tel: 1-415-864 3330
www.sfopera.com
● Eugene Onegin: by Tchaikovsky. Yuri Temirkanov conducts his 1980s Kirov Opera production, with a cast including Anthony Michaels-Moore and Elena Prokina; Nov 19, 22
● Guillaume Tell: by Rossini. Conducted by Patrick Summers in a staging by Lotfi Mansouri. Cast includes Patricia Racette; Nov 18, 21
● Pelléas et Mélisande: by Debussy. Conducted by Donald Runnicles in a production by Colin Graham. Frederica von Stade and Simon Keenlyside sing the title roles; Nov 20, 23

■ TOKYO

CONCERTS
Suntory Hall
Tel: 81-3-3289 9999
● Ivo Pogorelich: recital by the pianist of works by Brahms, Granados and Prokofiev; Nov 19
● Staatskapelle Berlin: conducted by Daniel Barenboim in symphonies and piano concertos by Beethoven; Nov 18, 23

OPERA
NHK Hall
Staatsoper Unter den Linden: Die Walküre, by Wagner. Conducted by Daniel Barenboim; Nov 21

■ WASHINGTON

EXHIBITIONS
National Gallery of Art
Tel: 1-202-737 4215
www.nga.gov
Building a Collection: display of around 100 works on paper including drawings by Monet; to Apr 19

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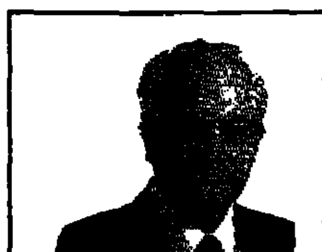
COMMENT & ANALYSIS



Martin Wolf

Europe's real insiders

There are several economic models in Europe, but they share a bias towards male breadwinners often at the expense of women, the young and older workers

In the European Union, more than 18m people are out of work. The unemployment rate is more than double that of the US and three times that of Japan. This, everyone agrees, is the EU's biggest challenge.

A reasonable person might believe that the European leaders meeting at the jobs summit in Luxembourg on Thursday and Friday will take radical action to meet it. The reasonable person would be dead wrong. The EU leader hope mild reform will secure improved jobs performance. They will still try to avoid the alternative if it does not.

Continental Europe does not embody a single economic model. To the Anglo-Saxon deregulated system, can be added at least four more:

- the Rhineland (Austria, Belgium, Germany, Luxembourg, the Netherlands, and Switzerland);
- the Mediterranean (Italy, Spain and Portugal);
- France, perching uncomfortably between the Mediterranean and the Rhineland;
- and Scandinavia (principally Denmark and Sweden, with Finland in an exceptionally difficult position).

Yet, although these differ in many important respects, they share a priority: to secure remunerative employment for the male breadwinner. They have succeeded.

In 1996, according to the Organisation for Economic Co-operation and Development's Employment Outlook, the proportion of men aged 25 to 54 in employment was 88 per cent in the US and 85 per cent in the European Union. An important part of the explanation for the somewhat worse EU performance was Spain, with its dismal rate of 79 per cent.

The employment rate for prime-aged men was 85 per cent in the UK. Elsewhere it varied between 83 per cent in Italy and 89 per cent in the Netherlands. Thus, the EU generated jobs for very nearly as high a proportion of prime-age men as the US. Many continental European countries had a higher proportion of such men in jobs than the UK and the variation among them was very small.

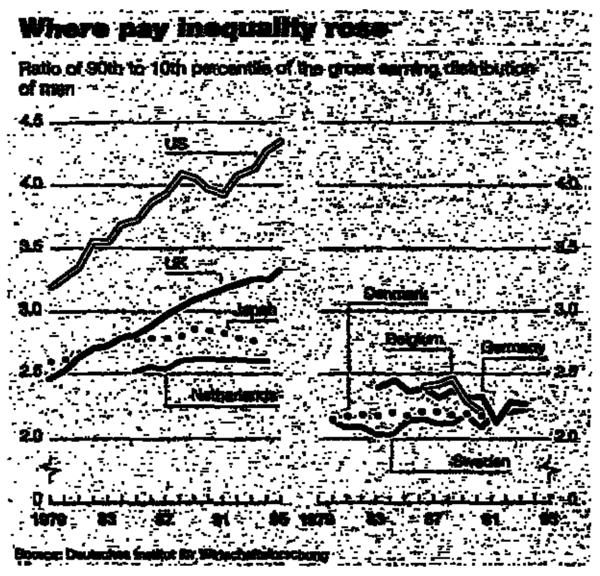
What is more, wage dispersion was both smaller and more stable in the continent than in the Anglo-Saxon economies. A standard measure of earnings inequality is the ratio between the bottom of the top 10 per cent of wage earners and the top of the bottom 10 per cent. As the chart shows, the US ratio jumped from 3.5 in 1982 to 4.3 in the mid-1990s; in the UK, it went from 2.7 to 3.7. On the continent, by contrast, it remained between 2 and 2.5. One fifth of the US workforce is employed at wages below the German minimum wage.

With high employment and equal earnings, continental prime-aged men already possess the "good jobs" President Bill Clinton wants for their US counterparts. The big differences between the continental and Anglo-Saxon models and among the continental models lie elsewhere.

In 1996, the proportion of US men aged 55 to 64 in employment was 65 per cent, against 46 per cent in the EU; the proportion of US young men and women aged 15 to 24 was 58 per cent, against 36 per cent in the EU; and the proportion of US women aged 25 to 54 was 73 per cent, against 62 per cent in the EU. It is these groups that fare better in the US. Yet there also differences among continental European countries.

Consider, first, older workers. In Anglo-Saxon UK, 57 per cent of men aged 55 to 64 were in jobs in 1996, just a little below the US proportion. The Scandinavians are close to the Anglo-Saxons: Denmark's employment ratio for men aged 55 to 64 was 58 per cent and Sweden's still higher, at 66 per cent.

In Rhinelandish Germany and the Netherlands, the ratios were much lower, at 47 per cent (in 1995) and 41 per cent, respectively. Mediterranean Italy and Spain were close to the Rhineland, (42 per cent and 50 per cent). In France, the proportion of men aged 55 to 64 with jobs was just 39 per cent.



Turn, second, to the young. In the UK, the proportion of young people in employment was 60 per cent.

Rhinelandish Germany and the Netherlands were somewhat lower, at 51 per cent (in 1995) and 54, respectively. Scandinavian countries were fairly close, with Sweden's ratio at 40 per cent and Denmark's exceptionally high, at 66 per cent. But in Mediterranean Italy only 25 per cent of young people and in Spain 26 per cent were at work. France was again Mediterranean, with a dreadful youth employment ratio of 22 per cent.

Look, last, at women. In the UK, the proportion of women aged 25 to 54 in employment was 70 per cent in 1996, close to the US proportion. Scandinavian employment ratios for women were exceptionally high, at 80 per cent in Sweden, 76 per cent in Denmark and 73 per cent in Finland. Rhinelandish Germany and the Netherlands were not far behind, at 65 per cent (in 1995) and 63 per cent, respectively. The French ratio here was Rhinelandish, at 68 per cent. In Mediterranean Italy, however, it was down to 48 per cent; and in Spain it was 42 per cent.

The most important conclusion is that the continental European jobs market has generated remunerative employment for the breadwinning male. These men are the labour-market insiders. Highly motivated, committed to their work, at the peak of their productivity and determined to remain employed, they are the core workers of any private company. It is their interests that corporate bosses, trades unions and politicians tend to put first.

The policies protecting core workers are many: high taxes and social charges; a generous welfare floor; tight restrictions on firing; high minimum wages; egalitarian collective bargaining; the spread of collectively reached pay agreements throughout the economy; and restrictions on part-time work. The net effect is to reserve private employment to the most productive and committed workers.

Women tend to become outsiders almost everywhere, although a huge number of jobs can be supplied by the public sectors of high tax economies, notably in Scandinavia. Similarly, those aged 55 to 64 are turned into outsiders, as generous subsidies and pensions cushion early retirement. Meanwhile, the young have to wait, though this is less true in the Rhineland, where they both train and work at the same time.

If variants of the basic insider-outsider model deliver what continental countries want, why should they change them?

Why indeed? These countries will not undermine the bargaining position of insiders merely to satisfy less important outsiders. Consequently, Gordon Brown, the UK chancellor, will find it extraordinarily difficult to convince his peers that new Labour possesses what amounts to the philosophers' stone: the claimed ability to combine US jobs growth with European social cohesion.

Even persuasion by the likes of Mr Clinton and Tony Blair, the UK prime minister, must fail to induce continental European leaders to introduce big changes. There is only one thing likely to do so – serious failure. If the recovery now under way fails to lower unemployment, growth stutters again or – worst of all – prime-aged men lose jobs in droves, they might become radical. Until then, they will stick to social-consensus nurse, for fear of something worse.

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Personal View · **William Daley**

Clamping down on commercial bribery

The OECD should take a stand against the plague of international corruption

In the short time I have been US commerce secretary, the world has moved towards dealing with the scourge of international corruption, and may now be moving away. In May, the world's biggest industrialised countries promised to make illegal the practice of bribing foreign officials. Recently, however, there have been signs that they are backsliding. It is imperative that countries recover the determination that fuelled their action in May. They do not have much time.

Since mid-1994, the Commerce Department has learned of allegations of bribery by foreign companies in some 180 international commercial contracts valued at nearly $80bn (£47bn). A British newspaper recently quoted a board member of a big German multinational as saying it would take 10 years to replace the overseas staff and networks that currently expect to operate on the basis of "necessary" bribery.

As commerce secretary, I am incensed when I see business diverted from companies that play fairly to those that play fast and loose. But I am even more disheartened by the damage that corruption inflicts on the economic development of less-developed countries.

Last May, trade, finance and foreign ministers of the Organisation for Economic Co-operation and Development (OECD), agreed to make a concerted attack on transnational bribery. As OECD ministers, we agreed to complete a convention by the end of this year obliging member states to make the bribery of foreign public officials a criminal offence, as it already is in the US under the Foreign Corrupt Practices Act. The convention is *to come into force* by the end of 1998 and the OECD will establish a monitoring procedure to enforce this decision.

After the first round of talks in July, the conclusion of an effective convention by the end of 1997 appeared to be attainable. But I am distressed by the backsliding on some critical issues at the October meeting.

The OECD ministers agreed in May that the bribery of legislators would be covered. But German and Austrian negotiators now insist that only a small category of bribes to legislators should be illegal. *They argue* that the convention must either mirror their domestic laws, which generally prohibit only those bribes paid to legislators to buy their votes, or that their companies be exempt from more stringent convention prohibitions against the bribery of foreign legislators.

Equally disturbing, most OECD member countries have taken the position that the convention should not cover *the bribery of political* parties and party officials. Imagine the effectiveness of a convention that failed to prohibit bribes to the political machines of Zaire's Mobutu Sese Seko or the Philippines' Ferdinand Marcos.

We must also cover the full range of enterprises owned or controlled by governments given the large number of such enterprises in developing countries. If we don't, this loophole alone could seriously weaken the convention.

I ask those that are failing to fulfil their pledges and are insisting on limitations on the scope of the convention to do what they know is right

The lack of progress on *these issues should* be deeply disturbing to ministers who agreed to criminalise bribery last May. Is it conceivable, after the bribery scandals that have caused so much damage to OECD nations in recent years, that any OECD member country could publicly insist that this convention fail to prohibit the bribery of public enterprises, foreign legislators, political parties and party officials? Instead of having a convention to outlaw bribery, we would run the risk of pointing the way to "legal" bribery.

Another vital issue is when to bring the convention into effect. Several OECD members, including France, Germany and Japan, insist the convention come into force only after a critical mass of large nations signs on, citing concerns about undercutting their companies' competitiveness. *But surely these countries,* with the US, would constitute a critical mass. Those who delay will come under pressure from their trading partners to ratify the convention.

I remain committed to the goal we set in May. A number of other member countries are equally committed. I ask those that are failing to fulfil their pledges and that are insisting on unwise limitations on the scope of the convention to do what they know is right.

We have only one negotiating session left before the December deadline. Let's renew our resolve to meet that deadline; let's settle the *outstanding issues* this month and form a tough agreement, without loopholes, that will effectively criminalise bribery of foreign public officials through all possible channels.

The author is US commerce secretary

LETTERS TO THE EDITOR

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Reserves transparency would cut HK dollar speculation

From Professor Steve H. Hanke.

Sir, You reported that the Hong Kong Monetary Authority is now requiring the territory's banks to submit daily reports, as well as *monthly statements* ("Hong Kong steps up bank monitoring", November 13). While this will assist the HKMA to monitor banks better, it fails to address a significant reporting problem at the HKMA itself. The authority only reports its reserve position monthly, and this report fails to include the HKMA's forward currency positions. This lack of transparency creates undue confusion and speculation. Since the HKMA is a *currency board* arrangement, it cannot engage in monetary policy that affects the monetary base and, therefore, it has nothing to hide.

Consequently, it should publish its net reserves, including forward currency positions, on a daily basis, as do most other currency board systems. This would enhance its transparency and reduce undue speculation against the HK dollar.

Steve H. Hanke,
professor of applied economics,
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Papandreou's final years not wasted

From Mr George Katiforis MEP.

Sir, In your editorial "Greek grit" (November 13), which on the whole was accurate and quite perceptive, *you describe* the late prime minister of Greece, Andreas Papandreou, as "wayward and *xenophobic*". *You go on to* add that, following his return to power in 1993, "three years were wasted which should have been devoted to economic reform".

Having served under Papandreou twice, including the period referred to in your editorial, as his chief economic adviser, and having known him personally reasonably well, I could testify to various of his idiosyncrasies – what man of action worth his salt does not have them? – but I would hardly describe him as wayward and most emphatically not as xenophobic. That, however, we might leave as a matter of subjective evaluation.

Regarding, on the other hand, the three wasted years, figures tell a different story. In 1993 inflation in Greece was running at a rate of 14.4 per cent. By 1996 it had been reduced to 8.5 per cent. The budget deficit started at 14.2 per cent; by 1996 it had been reduced to 7.4 per cent, and interest rates had fallen from 20.3 per cent in 1993 to 11.2 per cent.

Moreover, in the summer of 1994 Papandreou succeeded, with much skill and energy, to frustrate a serious speculative attack on the drachma while abolishing the last remaining capital-flow controls that kept us apart from the rest of Europe. Shortly afterwards Papandreou prevailed over considerable opposition to push through an unprecedented tax reform that *enabled the* government, for the first time, to capture some *of the* revenue hitherto escaping merrily into the black economy.

All this, from a man seriously ill and nearing his end, does not amount to three wasted years. On the contrary, it was exactly during these years that the basis for today's policies, being doggedly pursued by his successor as prime minister, Kostas Simitis, were laid.

George Katiforis,
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Belgium

Set targets to eliminate sponsorship

From Mr Geof Rayner.

Sir, It is as well to remind your readers that the banning of tobacco sponsorship went one step beyond what we in the public health movement had expected, and, irrespective of the confusion caused by the special favours granted by the government to Formula One, the commitment of Max Mosley, president of the FIA (Letters, November 11), to reduce the use of tobacco symbols in his sport, is to be welcomed.

Some of the current fuss could be further eased if Mr Mosley and his colleagues applied their minds to developing specific targets for the reduction and then complete elimination of tobacco sponsorship.

Equally, the government might work with other sports to help them to develop similar plans for the elimination of all tobacco sponsorship by a set date.

The lesson the government might draw is that it should be consistent, both in applying the same rules to all parties, and, having developed a sensible approach to reducing tobacco sponsorship, it should stick to it.

Geof Rayner,
secretary,
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Loaded question on Emu

From Mr Tony Tresigne.

Sir, Does the debate on the validity of response of Confederation of British Industry members to Emu membership ("Labour begins preparations for Emu", November 10) not miss the point, that is the validity of the question. Ignoring the constitutional issues, the crux of opposition to Emu is that "cyclical convergence" and "a competitively sustainable exchange rate" are not obtainable within the medium term. The fact that conditions may be briefly favourable does not answer the concerns of the system's inherent inflexibility to a fundamentally different economic structure in the UK.

The phrasing of this question has given a risk free option: "Do you support Emu given that it works". Hardly surprisingly a majority said yes.

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Nothing will last forever

From Mr Andrej Heinke.

Sir, Gerhard Schröder's rational and refreshing argument (Personal View: "*Reforming* the German model", November 5) provides hope in an otherwise bleak German political landscape. All the more amazing to me is that Rolf Siegen (Letters, November 14) accuses him of being "unpatriotic" and of trying to bask in Germany's "ossification".

Coming from east Germany, *I* wish that there were far more in the west specifically of a readiness for change in society, an acceptance of individual responsibility for democratic principles and a more entrepreneurial spirit.

A worn out Kohl-administration reminds me of the last days of the old East German regime. Many assumed then that it would last forever. Well, it *didn't*.

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Tuesday November 18 1997

Fire-fighting in Japan

If the Japanese authorities' readiness to permit the closure of the country's 10th largest bank signals a new realism in dealing with their festering banking crisis, so much the better. The snag is that Hokkaido Takushoku Bank looks too unusual a case to justify the euphoric stock market response to the news of its demise. What is needed, if further trouble is to be avoided, is a clearer indication that the Ministry of Finance has a strategy that goes beyond mere fire-fighting.

Japan has already paid a high price in lost economic growth as a consequence of its mismanagement of the banking crisis. The risk, as problems creep further up the banking hierarchy, is that they will spill over into international markets and pose a threat to the world financial system. In effect, we are seeing a re-run of the 1930s on a regional basis. While a wave of competitive devaluations sweeps through the emerging markets, the developed world's second largest economy finds itself in the grip of worsening deflationary forces.

Federal Reserve chairman Alan Greenspan judges that the impact of Asian turbulence on the US will be "modest, but not negligible". Europe is not greatly at risk. Yet as Larry Summers, US Deputy Secretary of the Treasury, has remarked, such verdicts depend heavily on stability being restored as soon as possible. Since that cautionary statement was made, the Bank of Korea has abandoned its attempt to defend the won. The squeeze on Korean companies that have borrowed in yen will be exacerbated, so adding to the woes of the Japanese banks.

This would not have been possible if the Japanese authorities had learned the lesson of the US savings and loan debacle. The decision in the 1980s to allow these loss-making institutions to attempt to trade their way out of trouble led to a vastly increased bill for the US taxpayer. The new feature in the present crisis is that taxpayers outside Japan are also at risk, because of financial integration and the urge of Japanese banks to go for broke overseas.

The Japanese banking system remains inherently unstable because its solvency is threatened whenever a falling stock market reduces the value of the banks' equity holdings. Moreover, the threshold on the Nikkei index at which the banks run into trouble has been creeping up as they have used up their hidden reserves in writing down bad debts. The recent rise in the premium Japanese banks have to pay for dollar deposits also suggests a further erosion of international confidence since the onset of the Asian crisis. The systemic implications are deeply worrying.

Because the integration of financial markets carries the risk of contagion the international community has a right and an obligation to press harder for a more coherent Japanese approach. This should entail a recognition that timely and transparent acknowledgement of bad news is better for market confidence than continuing fudge. More fundamentally it requires the announcement of a plan to recapitalise the healthier parts of the banking system, along with a rapid and brutal closure of the rest. The risks and costs of prevarication are mounting daily.

Jobless growth

Even at this advanced stage of the US business cycle, big companies are still cutting back on jobs. While many smaller companies are expanding rapidly, announcements of large-scale redundancies have been streaming out from the likes of Eastman Kodak, Levi Strauss and International Paper. There could hardly be a more graphic illustration of structural changes in the US economy.

The same forces prompting consolidation in finance and telecommunications are driving companies everywhere to squeeze down costs. WorldCom's bid for MCI is predicated on massive savings, which in turn will put more heat on competitors. Technological breakthroughs and product innovations have overturned what once were quasi-monopolies. And with some financial service giants now spending more than $1bn a year on technology, economies of scale are increasing, making further mergers, and lay offs, more likely.

There is little scope for price increases, especially in internationally tradable goods. Kodak has found its domestic market share being chewed away by price competition from Fuji. Garment manufacturers face similar pressures. Overall producer prices fell marginally in the year to October.

The American workforce is also being reshaped by flexible staffing, with workers who were once hired directly being replaced by purchases of services. According to the Bureau of Labour Statistics, well over a fifth of the 14.3m jobs added to the economy from 1988 to 1996 were in business, engineering and management services.

Until recently, the puzzle was why these trends were not showing up more clearly in productivity figures. But the latest figures show signs of the underlying changes breaking through: productivity in the three months to September rose at an annual rate of 4.5 per cent, the fastest rate for five years. This is a crucial component of the country's remarkable inflation performance.

There are two concluding questions. First, if large companies are behaving this way at a time of robust economic growth, how would they respond to a rather slower rate of expansion next year? And what are the implications for continental Europe, where structural unemployment is already high and where corporate restructuring is at an early stage? It is a chilling thought.

Blue Sky Air

The launch of British Airways' new low-cost airline symbolises how deregulation has altered European aviation – and how limited those changes are.

"Operation Blue Sky" is to be a start-up venture, flying from a stylish but under-used airport some way from central London. It will use the standard low-cost airline routines, pioneered in the US 15 years ago: one-class flights, no meals, ticketless check-in, flexible labour. It will start by serving a handful of continental European destinations, flying eight aircraft by early 1999.

For British Airways, all this is new and exciting, made possible only by European deregulation. But to the US industry – or the brave band of European independents – it is old news.

In the US, for example, most big airlines launched or acquired low-cost operations, or introduced two-tier wage levels for newly hired personnel. This caused endless friction over pay. It was only when the big airlines got serious about cost-cutting in their core businesses that the cheaper competitors were contained or – in many cases – eliminated.

If British Airways is serious in making the new airline a stand-alone operation, it will avoid some, but not all, of the pay comparability problems. It may also avoid challenges on competition grounds from existing low-cost airlines, or from Brussels. In this regard, a test of Blue Sky's independence will be whether it relies on its parent for aircraft maintenance, or contracts it elsewhere.

Operating at arm's length, Blue Sky will teach its parent useful lessons about low-cost flying, and warn future rivals that BA will not complacently accept the erosion of its markets. But a stand-alone Blue Sky will suffer the same disadvantages as its independent competitors – lack of slots at its intended destinations, unfashionable airports, limited frequency. It remains to be seen whether its managers will be able to emulate their rivals' relentless focus on continuous cost-savings.

Above all, the BA plan reveals the unspoken truth about the new competitive era in European aviation: so far, it is confined largely to airlines based in the British Isles. If the new airline is to be a genuine stand-alone competitor, it is a welcome newcomer. But Europe still awaits the wider airline competition the region badly needs.

Back from the brink

By letting its 10th-largest bank fail, Japan has been unusually bold, but doubts remain about the economy, says **Paul Abrahams**

Japan's economy has been at the brink. Weeks of unremitting stockmarket decline and a stream of grim news from banks and brokers have raised serious questions about the financial stability of the world's second-largest economy.

The chances of avoiding a financial meltdown – with all its dreadful consequences for the real economy – depended on how the government would respond. Would it let ailing banks go bust? Or would it seek to prop up financial institutions even at the risk of making matters worse in the long run?

The crisis came over the weekend. On Friday, the cumulative losses of the Nikkei 225 index exceeded 25 per cent since June. At Friday's close, 18 of the country's top 20 banks had suffered sufficient losses on their equities holdings that their capital adequacy ratios were threatened. The system was groaning. Banks would either have to sell more equities to raise capital – driving the market down further – or they would have to tighten credit, precipitating a rash of corporate bankruptcies, undermining both the markets and an already shaky economy.

Now we know the answer. The authorities' bold decision to allow the country's 10th-largest bank, Hokkaido Takushoku, to go bust was rewarded by a rebound in the Nikkei: the 225 index shot up 8 per cent, the fourth-largest percentage rise ever. So has the government and Japan passed the test? Hardly. Despite yesterday's exuberance, big doubts remain about the health of the financial sector and the economy as a whole.

Yesterday's reaction appeared paradoxical. After all, shareholders of Hokkaido Takushoku – commonly known as Takugin – have probably lost their entire investment. But investors were pleased for two reasons. First, it showed the government was prepared to make difficult decisions. And second, the authorities appeared to have a new mechanism which allowed them to deal with the weak financial institutions in a controlled manner.

The decision to allow Takugin to fail was undoubtedly difficult. For the ruling Liberal Democratic Party, the political cost of Takugin's failure could be considerable. The northern island of Hokkaido, where the bank is based, is among the least privileged regions of Japan. Bureaucrats at the ministry of finance were blunt yesterday when they said that although a few of the bank's 5,000 employees might be picked up by a rival, most would lose their jobs.

Moreover, LDP politicians must now justify lending public funds to bail out the bank's depositors: they will be repaid by out of unsecured loans from the Bank of Japan and from an industry-insurance scheme. The government can easily afford to do this: the Takugin had more deposits than loans, and liabilities may exceed assets. But it will be a hard sell to the voters, so the government's decision did demonstrate a new determination.

As for the new mechanism for Takugin's liquidation, that was a change from traditional means of rescuing distressed financial institutions. Usually, financially robust companies have been forced by the bureaucrats to support the weak, effectively rewarding poor management while penalising good. That was the essence of Japan's "convoy system".

This time, Takugin has simply gone out of business. Its profitable operations on the island of Hokkaido will be taken over by North Pacific, a local rival, and its bad loans put into an industry insurance fund. Takugin's business on the mainland is up for sale. That example, many hope, will prove a paradigm for dealing with other troubled financial institutions.

But the markets' exuberance may be premature. The bankruptcy of Takugin and the demise last month of Sanyo Securities, Japan's seventh-largest securities house, may not necessarily serve as a model. Neither was part of a *keiretsu* – large groupings of companies that dominate much of corporate Japan. So far, no substantial company in such a *keiretsu* has been allowed to fail. If one did, that would be truly revolutionary.

Moreover, in spite of the Nikkei's rebound yesterday, the index is still down more than 20 per cent since June and 58 per cent since its peak in 1990. Even at yesterday's close (16,283), much of the financial sector is still suffering from losses on its equities holdings. The investment bank J.P. Morgan estimates that with the index at 16,300, five of the top 20 banks have losses on their investments, as do eight of the top 15 life assurance groups.

The Japanese financial system's problems have not disappeared. More than anything, it remains under threat from the dire state of the domestic economy. Bureaucrats and politicians alike were expecting April's increase in sales tax from 3 per cent to 5 per cent to have some sort of impact. But they were taken aback by the scale of the downturn. Japan's gross domestic product contracted in the April to June quarter by 2.9 per cent, an annualised rate of 11.6 per cent.

The duration of the economic malaise has also been a surprise. Retail sales fell year on year by 2.7 per cent in September, the sixth month of decline. Sales of personal computers, which were expanding 70 per cent a year in 1995, actually fell in the quarter ending September. And car sales plunged 13 per cent last month.

This downturn has hit company earnings, and increased the bank's bad debts. But the banks may actually be exacerbating the economy's plight. A credit crunch may be looming. In their efforts to improve their balance sheets, banks have tightened credit: outstanding loans were down 0.4 per cent last month. This week the Japan Chamber of Commerce and Industry warned that more than half of its branches had received complaints about banks refusing loans. A report published yesterday by Tokyo Shoko Research indicated that more than 1,600 Japanese companies went bankrupt in October, an increase of 15 per cent, and the highest level in 11 years.

The outlook is dim. A small rebound in the economy is expected when GDP data for the quarter ending in September are published next month. But the consensus forecast for the full year ending in March is growth of just 0.2 per cent. It would not take much – say a further deterioration in Asian economies or a slight slowdown in the US – for that figure to turn negative.

The authorities, which until recently were in denial, admitted last week that the economy had stalled. Yesterday, Larry Summers, US deputy treasury secretary, called for rapid measures to stimulate Japan's economy. A package of measures designed to increase demand is due today. Expectations are low, but this government has a tradition of disappointing even low expectations. In spite of the authorities' ability to deal decisively with one bank, their willingness to tackle the structural problems hobbling the economy as a whole is still in doubt.

Another won bites the dust

While Japanese equities rebounded on the news of the closure of Hokkaido Takushoku Bank, developments in South Korea continue to send shudders through the international markets.

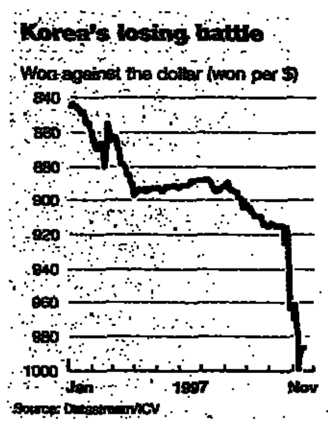
Yesterday the Bank of Korea abandoned efforts to prevent the won falling below the 1,000 level to the dollar, sparking renewed concern over the level of its foreign exchange reserves and the possibility that it may have to seek help from the International Monetary Fund.

Such a move would make the problems of Thailand, Indonesia and the rest of south-east Asia look like a sideshow. Korea has the world's 11th largest economy and is its 12th largest exporter, putting it into a different league from Thailand. As a mark of its new-found "developed" status, this year it joined the Organisation for Economic Co-operation and Development.

At the heart of Korea's problem is the heavy indebtedness of both its banks and its major companies. At many companies debts are more than 400 per cent of capital. That was all right when the economy was growing fast, but now it has slowed and several conglomerates have collapsed under the strain.

This has wrought havoc in the banking system, where bad debts are estimated to be about 15 per cent of loans. Banks have been borrowing heavily to keep themselves and their customers afloat. Their loans have pushed up Korea's total foreign debt, which according to J.P. Morgan will reach $125bn (£73.90bn) this year; $78bn of that will be with a maturity of one year or less.

What has alarmed international markets in recent days is



the realisation that, with reserves of just $30bn, or less than three months' imports, Korea could not repay all this debt if lenders refused to renew their credit lines. That might cause problems to ripple out into the international banking system, while a spiralling devaluation would put Korea's industrial competitors in Japan under strain, adding to the problems facing that country.

Korean officials say the problems have been overstated. The balance of payments deficit, they point out, will be only about 3 per cent of gross domestic product this year compared with Thailand's shortfall of almost 8 per cent. The deficit is falling as exports rise on the back of the won's depreciation.

Reserves are higher than $30bn, Korean officials say, because the government has additional holdings of foreign currency with local banks. The IMF forecast last month that economic growth would recover to about 6.5 per cent next year from about 5.9 per cent this year.

All the same, much depends on whether Korea can produce a convincing package of measures to stabilise its banks. The government has announced a $3.5bn fund to buy bad debts from the banks and is expected to unveil further measures this week, focusing on a streamlined supervisory system that should help protect its financial institutions from excess.

But the markets are getting impatient. With presidential elections looming next month, fierce parliamentary debate over banking reform and a strike at the central bank by workers who object to the new supervisory system, Korea is struggling to convince the outside world that it can solve its problems on its own.

Peter Montagnon

· OBSERVER ·

Rudloff awakening

■ Euromarket godfather Hans-Jörg Rudloff is not a man to beat about the bush. The former Credit Suisse First Boston banker's reaction to ING's bid for Banque Bruxelles Lambert was typically robust; if the deal goes through he plans to buy back BBL's 51 per cent stake in MC-BBL, the eastern European investment bank he founded two years ago.

His reaction should hardly come as a surprise. When Rudloff set up his new outfit – then called MC Securities – back in 1995, he invited BBL to put up capital mainly because potential clients found comfort in its well-padded balance sheet.

The Belgian bank was never supposed to end up in control. When it did – due to sticky Russian markets – Rudloff was a bit miffed. "I get diluted and find myself in the same position as I was before, reporting to the chairman of a commercial bank," he said at the time, adding reassuringly: "But that is the only negative aspect to the deal."

Now the forthright 57-year-old has an opportunity to go it alone again, although there are hints that his enthusiasm for being the undisputed boss is waning. "I am not interested in status any more," he says. "I have had all the positions and I am now interested only in the business." Even so, it's hard to imagine him kowtowing to anyone.

Flagging

■ The British might have nowhere to hang their flag in Berlin when the German government moves there in 1999. A prime spot a stone's throw from the Brandenburg Gate is reserved for a plush new British embassy, but there's no sign of any activity yet, and the site is carpeted with weeds instead of deep-pile Axminster.

The UK chose the showcase project as the first overseas outing for its private finance initiative – a complicated procedure for using private-sector money and expertise to design and build public-sector projects. There have been wrangles about where private sector competences end and state power begins over such sensitive issues as security, while Berlin's famed planning bureaucracy hasn't helped.

So the word on the *strasse* is that Britain's celebrations for the return of Germany's capital to Berlin will be cobbled together in the embassy's current gloomy Berlin outpost – once the embassy to communist East Germany – or whatever rented offices diplomats can get their hands on. Not the best surroundings for handing round the *Qualitätswein*.

Just reward

■ Lawyers acting for US states against the tobacco companies have chalked up some notable victories – like the $11.3bn settlement they won for the state of Florida. But Judge Harold Cohen of Palm Beach county court has put a dampener on the victory celebrations; he's declared that he won't agree the lawyers' fees.

A little unreasonable, you might think, until you discover that the legal eagles were claiming a contingency fee of $2.8bn – they say Florida agreed to hand over 25 per cent of any settlement. Judge Cohen said their claim amounted to $92,593 an hour overall: that's $7,716 an hour for each of the 13 private lawyers involved, which the judge describes as "patently ridiculous". Florida's officials and taxpayers, who had fallen out with their former allies over the the bill, are delighted. The lawyers, needless to say, are appealing.

Word search

■ Japanese bureaucrats are performing verbal somersaults trying to describe the dire state of the Japanese economy without using the "R" word.

A few weeks ago Koji Omi, head of the economic planning agency, said the Japanese economy wasn't in recession but walking on the spot, helpfully adding that "it is facing forward, not backward".

One of his colleagues has now come up with an even more elaborate metaphor: he ventured that the economy had been climbing stairs too quickly, and had stopped on the landing for a rest. "We can't say there's no chance that it might just sit down on the landing," he said. "But if things come together then it will start climbing again."

Observer awaits an announcement that the Japanese economy has popped out for a coffee and is expected back in a few minutes.

Broken line

■ Until yesterday, South Korean government and central bank officials promised to defend the won at the "Maginot Line" exchange rate of 1,000 to the US dollar. There are some parallels between the won policy and the Maginot Line, which was built by the French after the first world war as a defence against Germany. It was misconceived, expensive and ultimately useless.

The Financial Times

100 years ago

Queensland National Bank
A good many years ago, before the financial crisis occurred in Australia, our financial contemporaries used to accuse the Financial Times of virulence, vituperation, reckless abuse and so on, because we did not hesitate to warn British investors of the danger involved from the reckless methods which were being followed at the other side of the world. The report which has just been submitted to the Queensland House of Assembly regarding the history of the Queensland National Bank is not pleasant reading, and is not rendered any more palatable by the fact that Mr. Drury, the late general manager, whose conduct is severely impeached, is dead.

50 years ago

Australian Bank Writ
In a move to forestall a possible attempt by the Australian government to implement the nationalisation of the banks so quickly that it is too late to test the validity of the legislation in the High Court, eleven trading banks took unprecedented British legal action in Sydney to-day to obtain an interim injunction against the Bill before it becomes law.

FINANCIAL TIMES
Tuesday November 18 1997

UK could get limited role in new euro-forum

By Lionel Barber in Brussels

Britain received a signal yesterday that it might be allowed to play a limited role in a new and potentially powerful forum made up of founder-members of European economic and monetary union.

But France and Germany, the two leaders of the future euro-bloc, warned Britain and other countries likely to remain outside the single currency that they had *no* guaranteed seat at the table.

The French and Germans made their views known at a meeting of European Union finance ministers in Brussels that sought to narrow divisions between the 11 prospective members of the single currency and those likely to be outside: Britain, Denmark, Greece and Sweden.

The meeting failed to reach an agreement, but diplomats expressed confidence that a compromise over the new "euro-forum" could be reached in time for next month's EU summit in Luxembourg.

The euro is to be launched in January 1999. The French government views the future euro-forum as a crucial political counterweight to the independent European Central Bank in Frankfurt and as a mechanism for co-ordinating macroeconomic policy, including taxation, employment and exchange rate policy.

Theo Waigel, German finance minister, said the new forum for Emu-zone countries should be informal and should not undercut the regular monthly meetings of all 15 EU finance ministers. He supported Gordon Brown, the UK chancellor, who insisted that the finance ministers' meetings should remain the main body for deciding economic policy. However, Dominique Strauss-Kahn, French finance minister, objected to the euro-forum being open to non-Emu participants. "You cannot have a voice in a committee that is managing a currency that is not your own currency," Mr Strauss-Kahn said. He suggested that the UK government should show its good faith by joining the European exchange rate mechanism ahead of its planned membership of Emu. Belgium supported this view.

Diplomats said a compromise would seek to blur the lines between those inside and outside the euro-zone, but only if all countries, including Britain, gave a commitment to join at the earliest date possible. Ministers agreed yesterday that the new euro coins and notes should be introduced on January 1 2002, rejecting the case for advancing the timetable before Christmas and the New Year sales.

Spain to fight, Page 4
Euro and equities, Page 3
US watches, Page 6

Eletrobrás plans to issue $6bn securitised bond

By Edward Luce in London and Geoff Dyer in São Paulo

Eletrobrás, Brazil's federal power company, is planning to issue a $6bn asset-backed bond in what would be Latin America's largest debt securitisation.

The bond, which will require government approval this week, would be used to reduce Eletrobrás' debts to the Brazilian government as part of Brasília's drive to tighten its fiscal position.

Payments on asset-backed bonds are backed by future income streams such as credit card receivables, mortgages, car loans or airline tickets. Officials at Eletrobrás say the utility would securitise the bond with revenues from its Itaipú hydroelectric dam.

Latin America, which is the most prolific emerging market issuer of securitised bonds, has issued less than $3bn worth of securitised paper this year compared with more than $10bn in 1996. Analysts, however, expect a flood of new paper over the next few months in the wake of recent volatility in the conventional bond market. "With the market as volatile as this you would expect a big increase in the number of Latin American [bonds linked to] future flows over the next six months," said Greg Karbance, an analyst at Duff & Phelps Credit Rating Agency in Chicago.

Bankers say that Brazil, which has been hit by the recent turmoil in the eurobond markets, is likely to resort increasingly to securitised and other asset-backed packages to reassure investors.

Brazil's 30-year dollar bond, which was issued at a spread of less than four percentage points over US Treasuries in June, has been hit particularly badly in recent weeks. It is trading at a spread of almost seven percentage points over US Treasury bonds. Some Brazilian corporate bonds are trading at a spread of more than 10 percentage points – levels not seen since the Mexican Tequila crisis in 1994.

Borrowers can obtain higher ratings from rating agencies by issuing securitised bonds, allowing them to reduce their costs. By issuing the bond through a special purpose vehicle, domiciled offshore, the borrower can reduce the risk of default and risks associated with currency convertibility.

Eletrobrás is planning to securitise $10bn-$12bn of the $17bn debt it is owed from the Itaipú project, which is expected to realise the group $5bn-$6bn in cash as the bonds are likely to be heavily discounted.

THE LEX COLUMN

Kindest cut

Japan's decision to let Hokkaido Takushoku Bank close is a welcome sign that Tokyo will allow market forces to weed out feeble financial firms. The Japanese banking sector has long been debilitated by overcapacity and weak balance sheets. The previous method of dealing with stricken institutions – arm-twisting other banks to take them over – merely transferred the problem to slightly more solid ones. Very little capacity was cut. With Hokkaido Takushoku, the mechanism is more promising. North Pacific Bank, which is taking over its good assets, seems to be under no compulsion to take on its employees and branches as well.

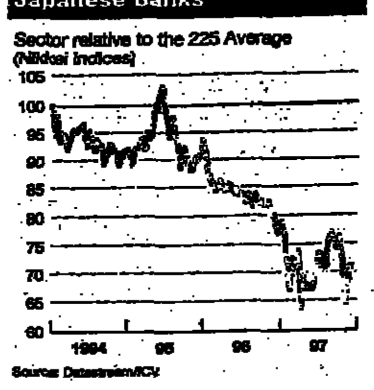
That said, Japan's banks are not out of the woods. More cuts will be needed if the sector is to make half-decent profits. Other big banks may also go under. Though none looks as troubled as Hokkaido Takushoku, counterparties will be wary now they realise Tokyo is prepared to let one of its top 20 banks close. That, in turn, could tip the weakest over the cliff – especially if yesterday's bounce in the stock market is reversed, as Japan's banks count a proportion of unrealised equity profits towards their capital ratios.

It is also doubtful whether the mechanism used to deal with Hokkaido Takushoku's bad loans – transferring them to the industry-backed Deposit Insurance Corporation – could be used if the crisis spread as the DIC's own funds are low.

Either the government would have to inject capital of its own, which could be politically tricky, or the surviving banks would have to pay bigger premiums, shifting them closer to the edge.

FTSE Eurotop 300 index:
917.6 (+25.0)

Japanese banks



Source: Datastream/ICV

Investment banks

US investment banks may be rethinking their expensive build-up in Asia. Thanks to the region's economic difficulties, the prospect of growing mergers and acquisitions activity – or even a healthy flow of *equity issuance – has* receded. Any scaling back by US firms would not be the first. Goldman Sachs, for example, retrenched in 1994, then admitted it had gone too far and has been building rapidly this year. While paying expensive expatriates to twiddle their thumbs is no recipe for success, the reward for those who stay the course could be the genuinely global reach to which so many aspire.

The fleet of foot may be able to turn Asia's problems to their advantage. The dire straits of financial institutions throughout the region will at least provide fodder for restructuring business. And Zurich Group's purchase of a stake in Peregrine, the regional investment bank, is a sign that long-desired acquisitions could come cheaply.

In reality, any decision to retreat will probably be shaped mainly by domestic considerations. As long as *the US market continues to drive* strong earnings, Wall Street firms will be able to keep their foothold in Asia without distressing sensitive shareholders. But if the US financial machine finally starts to stall, those still unpacked boxes in penthouse apartments in Hong Kong's Peak will probably be shipped back again.

British Airways

Despite plans to launch its own *no-frills airline, it is still unclear* how committed British Airways is to tackling the threat from budget airlines.

Operation "Blue Sky" looks too small, with only 150 employees expected, to challenge established operators. With the likes of Ryanair, Debonair and EasyJet put*ting British Airways' premium* prices under pressure, investors should expect a more decisive response. Furthermore, given that it has missed out on the development of the intra-UK budget market, Blue Sky will need deep pockets and real drive if it is to be at the forefront of developments on a European level.

British Airways' timidity is partly perhaps the product of its fear of unfavourable regulatory attention ahead of a European Commission decision on its alliance with American Airlines. Competitive advantages for Blue Sky through cheaper borrowing and purchasing of fuel, aircraft and training will doubtless be probed closely.

Fear too of deteriorating labour relations explains the decision to allow the unionisation of Blue Sky, in contrast to other low-cost carriers. Higher wage costs *may* constrain profits.

But at least by insisting Blue Sky operates as a separate business with its own name, management and employees, British Airways is for now intent on protecting the main brand. The damage done to Mercedes-Benz by the failed launch of its downmarket smaller car shows that any temptation to link the brands should be resisted.

United Biscuits

Sometimes retreats can seem glorious. This is what has happened with United Biscuits' latest retrenchment. It deserves applause for obtaining more than 30 times operating profits for underperforming snack businesses. It is also welcome news that nearly two thirds of *the proceeds* will be returned to shareholders. Not only is the shrinkage earnings enhancing but it also soothes investors who have seen the shares underperform the market by nearly 70 per cent over five years.

It is a bit sad, however, that United Biscuits did not make more of its number one position in the Australian snack market. It has ended up having to admit, as it did with the sale of Keebler in the US in 1995, that it does not have the *financial or management capacity* to run a far-flung business. It now has to prove that it can not only defend its remaining businesses robustly but expand them.

Through the years of overstretch, core brands like McVitie's biscuits suffered from a lack of investment. This has recently been reversed, *but it is too early to* be sure whether product launches, such as the Go Ahead diet brand, will bear fruit. The company can also afford to start buying again. But pushing biscuits to selected parts of the globe will require the management to show a dramatic improvement in its acquisition form. Investors will be watching the shopping list like hawks. If they are not convinced, they should demand a further return of cash.

Bank of Korea gives up defence of currency peg

By John Burton in Seoul and Simon Kuper in London

The Bank of Korea yesterday abandoned its attempt to hold the won above Won1,000 to the dollar. The Korean currency immediately plunged 3 per cent to a record low of Won1008.60 against the dollar.

Market economists said the won's slide could have strong knock-on effects in other countries. South Korea is the 11th largest economy in the world, about as big as the troubled *south-east Asian countries of* Thailand, Indonesia and Malaysia put together.

The won's slide sent the composite index of the Seoul bourse down 4.3 per cent to 496.58. The benchmark three-year corporate bond rate climbed to 13.4 per cent, the highest level in 27 months. Most other Asian currencies dropped, with the Taiwanese dollar hitting a 10-year low against the US dollar.

The won's 2.25 per cent trading band against the dollar is to remain, with the mid-rate based on the previous day's trading. But many foreign exchange banks have set targets for the won at Won1,200 to Won1,300 against the dollar.

Economists said the won's plunge could prompt a further slide in the yen, already near five-year lows against the dollar. Korean and Japanese products compete in many export markets and Japan sends 7 per cent of its exports to Korea.

Others hurting from Korea's slide include the US, which sends 4.4 per cent of its exports there, and European banks, cumulatively the biggest lenders to the country.

The won has fallen by 20 per cent against the dollar this year, with more than half the drop coming since the beginning of October.

The bank succeeded in stabilising the won last week by spending heavily in the spot currency market. But Korea's dwindling foreign currency reserves were last reported at $30.5bn, below the three-month import cover recommended by the International Monetary Fund.

The renewed financial turmoil has added urgency to the government's efforts to prepare a stabilisation package. The package, which should be proposed this week, is regarded as a "last chance" to restore foreign confidence.

But the plan's promised benefits *remain uncertain* because parliament is threatening to block legislation calling for an extensive restructuring of the financial system.

Banks' credit ratings are threatened with further downgrades because of their heavy exposure to several bankrupt conglomerates.

Another won, Page 17
Observer, Page 17
World stocks, Page 42

Shell and BP announce Russian ventures

Continued from Page 1

faction is at odds with Anatoly Chubais, Russia's embattled *first deputy prime minister*, who is seen to be close to Oneximbank, the powerful financial and industrial group that owns Sidanco.

Both Shell and BP will purchase significant minority shares in their partner companies and have outlined ambitious joint development projects, including a big oil and gas field owned by Gazprom in western Siberia and a vast gas field near the Chinese border owned by Sidanco.

Western markets welcomed news of the deals. Shell's *shares rose 4.4 per cent, or* 17.5p, to 418.5p, and BP's were up 4.3 per cent, or 36p, to 874p.

The appearance of two major strategic investors comes at a welcome moment for the Russian economy, which has been battered by the turmoil on emerging markets worldwide. Share prices continued to edge downwards yesterday.

Shell's alliance with Gazprom has three key elements. First, there is the plan to bid for Rosneft together with Lukoil, Russia's biggest oil company.

Second, Shell has committed to invest $1bn in a convertible bond to be issued by Gazprom in early 1998. At the same time Gazprom will offer up to $1bn worth of convertible bonds to institutional investors under identical terms. Finally, in the first of a series of planned joint efforts, Shell and Gazprom intend to develop the Zapolarnoye oil and gas field in western Siberia.

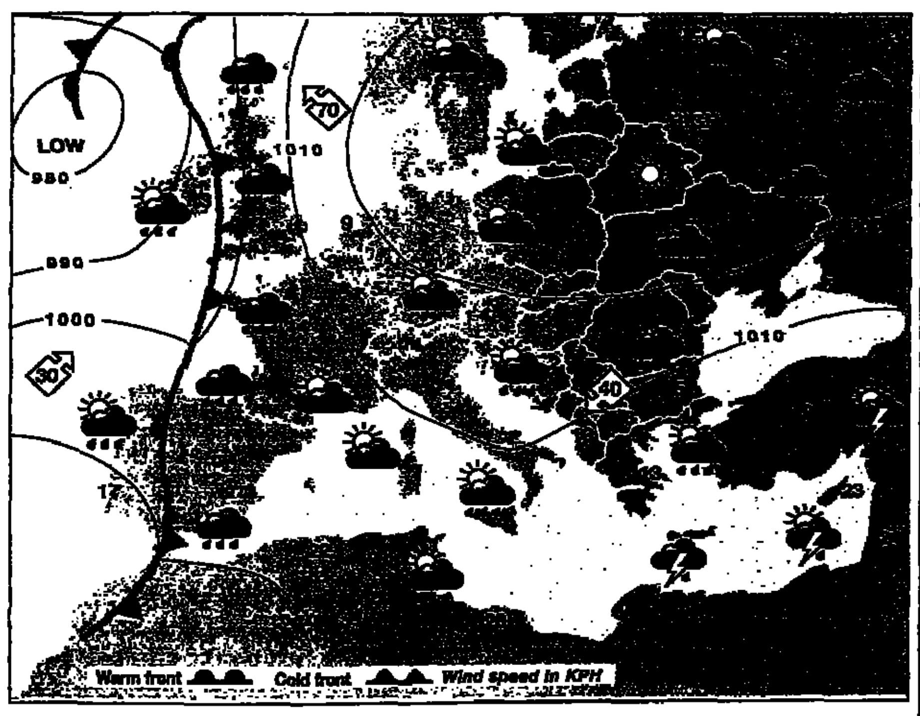
FT WEATHER GUIDE

Europe today

The north of Scandinavia will have rain at times, but elsewhere it will be dry with sunny breaks. High pressure will keep northern parts of eastern Europe dry, but southern parts will have snow. The Low Countries, Germany, Austria and Switzerland will be dry with some spells of sunshine. France will be wet in the west, but eastern parts will be dry with some sunshine. Rain in Portugal will clear to leave sunshine and showers. Spain will have outbreaks of heavy rain. Elsewhere in the Mediterranean, it will be showery, with some of the showers being heavy and thundery.

Five-day forecast

Western Europe will have further spells of rain. The Mediterranean will remain showery. Some of the showers will be prolonged and with some thunder. High pressure will *keep most of Scandinavia dry, but it* will become increasingly cold. Eastern Europe is likely to have some snow flurries before the end of the week.



TODAY'S TEMPERATURES

Situation at midday. Temperatures maximum for day. Forecasts by PA WeatherCentre

	Maximum	Beijing	Sun 6	Cardiff	Rain 14	Frankfurt	Cloudy 7	Madrid	Rain 15	Rangoon	Fair 33
	Celsius	Belfast	Rain 14	Casablanca	Shower 21	Geneva	Fair 8	Majorca	Cloudy 20	Reykjavik	Shower 6
Abu Dhabi	Fair 27	Belgrade	Rain 6	Chicago	Fair 7	Gibraltar	Shower 20	Malta	Thunder 18	Rio	Fair 29
Accra	Fair 32	Berlin	Fair 3	Cologne	Fair 9	Glasgow	Rain 14	Manchester	Rain 14	Rome	Fair 14
Algiers	Fair 22	Bermuda	Shower 26	Dakar	Fair 29	Hamburg	Fair 5	Manila	Rain 30	S. Frsco	Fair 17
Amsterdam	Sun 9	Bogota	Fair 20	Dallas	Fair 17	Helsinki	Fair 0	Melbourne	Shower 19	Seoul	Sun 8
Athens	Shower 13	Bombay	Sun 33	Delhi	Sun 27	Hong Kong	Sun 22	Mexico City	Fair 22	Singapore	Shower 30
Atlanta	Fair 11	Brussels	Sun 9	Dubai	Fair 28	Honolulu	Sun 29	Miami	Fair 27	Stockholm	Fair 3
B. Aires	Sun 23	Budapest	Hail 7	Dublin	Rain 14	Istanbul	Rain 11	Milan	Fair 14	Strasbourg	Fair 6
B.ham	Rain 12	C.hagen	Fair 5	Dubrovnik	Fair 13	Jakarta	Fair 33	Montreal	Snow -3	Sydney	Fair 21
Bangkok	Fair 35	Cairo	Sun 25	Edinburgh	Rain 14	Jersey	Rain 15	Moscow	Snow -3	Tangier	Shower 20
Barcelona	Rain 17	Caracas	Fair 31	Faro	Fair 21	Johannesburg	Fair 19	Munich	Fair 3	Tel Aviv	Sun 24
						Karachi	Sun 32	Nairobi	Shower 25	Tokyo	Fair 15
						Kuwait	Fair 25	Naples	Fair 14	Toronto	Cloudy 3
						L. Angeles	Sun 22	Nassau	Cloudy 28	Vancouver	Rain 7
						Las Palmas	Fair 26	New York	Sun 7	Venice	Fair 13
						Lima	Fair 26	Nice	Fair 16	Vienna	Shower 5
						Lisbon	Shower 18	Nicosia	Thunder 22	Warsaw	Cloudy 1
						London	Rain 14	Oslo	sleet 4	Washington	Sun 9
						Lux.bourg	Sun 5	Paris	Rain 14	Wellington	Fair 15
						Lyon	Fair 11	Perth	Sun 27	Winnipeg	Fair -4
						Madeira	Fair 22	Prague	Cloudy 8	Zurich	Fair 5

Germany

Quickening economic growth and record unemployment go hand in hand in a nation unsure of how to adjust to a rapidly changing world. **Peter Norman** reports

Calm cloaks a sense of unease

Germany presents a picture of peculiar contrasts. Quickening economic growth and record unemployment go hand in hand, as do booming exports and depressed domestic demand.

While politics are characterised by legislative gridlock in Bonn, industry and businesses are restructuring aggressively and forging new alliances to meet the challenges of globalisation and the euro.

Strains are manifest and yet there has been no real crisis. The 4.5m unemployed do not protest in the streets. Nor do the long-suffering members of the creaking pay-as-you-go state pension system despite rising contributions for those in work and the prospect of reduced benefits for those retired.

But the prevailing calm cloaks a palpable sense of unease. This has been articulated above all by Roman Herzog, the nation's president, who in April called for a "shock" to run through the land to prepare it for the next millennium. "What is wrong with our country?", he asked. "The loss of economic dynamism, the ossification of society, an incredible mental depression", was his reply.

It is against the background of a nation unsure of how to change that Helmut Kohl, the chancellor, will seek re-election for a fifth consecutive term on September 27 next year.

Mr Kohl has been in office so long that many first time voters will have no recollection of a Bonn government other than the three-party coalition of his Christian Democratic Union, the Christian Social Union (its Bavarian sister party) and the small Free Democrat party.

Mr Kohl so occupies the middle ground of German politics that voters may find it difficult to distinguish between the CDU and its main opposition rivals, the Social Democratic and Green parties. The task of differentiation will be even more difficult if and when Wolfgang Schäuble, Mr Kohl's crown prince, takes over.

True, the contrast will be a little sharper if next April the SPD choses its left-leaning leader Oskar Lafontaine, prime minister of Saarland, rather than Gerhard Schröder, the popular and populist pro-business prime minister of Lower Saxony, to stand against Mr Kohl for the office of chancellor.

But Mr Kohl's calculation is that the electorate will not want to face too many uncertainties. He sees his trump card as the euro, the single European currency which is due to begin displacing the D-Mark three months after the poll. The coalition strategy centres on the belief that the electorate will stand only so much change: that while accepting the loss of the D-Mark, the symbol of Germany's post-war economic success, they will not want to lose Mr Kohl.

The record of Mr Kohl's 15 years in office is mixed. His greatest triumph – unification – lies more than seven years in the past.

Since then the man who came to power in October 1982 promising a "turnround" in economic policies away from the state intervention and deficit spending of the previous SPD-FDP administration has presided over record unemployment, soaring public indebtedness and a government making heavy weather of modernising the economy and reforming the welfare state.

Rarely have the preoccupations of Germany's political class seemed less relevant to the population at large. If opinion polls are to be believed, Mr Kohl's frequent struggles to preserve his coalition, the manoeuvrings of the opposition and its blocking of legislation in the Bundesrat, the second chamber of the Bonn parliament controlled by SPD-governed states, find their echo in declining respect for politicians of all parties.

Whether or not Mr Kohl wins the election, there is a growing sense that the era he has come to symbolise is drawing to a close and Germany must face up to new uncertainties in a world made more complex by globalisation and the euro.

There is a fracturing of established structures such as the wage cartel between the employers' federations and trade unions which is under increasing strain as companies and local union branches cut deals to maintain jobs.

There are growing divisions in society, particularly between western Germany and the former communist east.

Few "Wessies" visit the new Länder. Moreover, the flow of public funds to the east is slowing, reflecting taxpayer fatigue after transfers of DM1,000bn over the past seven years. Economic growth in the east is now slower than in the west while unemployment is twice the western level and expected to affect nearly one in five of the east German labour force next year.

Germany must come to terms with relative decline, a phenomenon apparent to the ordinary citizen through such symptoms of public penury as the unlit highways of Bonn and the graffiti and dirt of the Frankfurt suburban railway system.

Yet there is no support for radical change. All the main political parties share one goal: preserving as far as possible the social market economy – Germany's own brand of capitalist society in which state payments and transfers account for nearly 50 per cent of GDP and in which a generous welfare state preserves the citizen from want from cradle to grave.

The welfare system is being pressured as never before as it tries to cope with the burdens heaped upon it by German unification and the challenges of globalisation and the euro.

Globalisation and technology are undermining the traditional employment structures which since Bismarck's day, more than 100 years ago, have underpinned the welfare state. Full-time employment is being replaced by less formal arrangements, including self-employment, part-time work, casual labour and the black economy.

According to Meinhard Miegel, head of the Bonn-based Institute for Economy and Society (IWG), there were five full time employees paying social security contributions for every one less formal worker outside the net in the early 1970s. That ratio has shrunk to two to one today and will be one to one in 15 years time.

The euro, hailed by Mr Kohl as a guarantor of peace and freedom and welcomed enthusiastically by big banks and businesses as an opportunity for more sales and profits, will pose its own special challenge.

Despite weak tax revenues, Germany expects to meet the economic convergence criteria needed to be one of the first wave of members of the economic and monetary union from 1999.

But the rigidities in German society and the reluctance to embrace change beg the question whether the nation will be flexible enough to cope with the increased transparency and competition that the euro will bring.

Mr Schäuble sees the euro as an instrument that will facilitate much-needed structural reforms. Warning that there is a "hell of a lot to do", Hans Tietmeyer, the Bundesbank president, says: "We have to make sure of our tax revenue base over the long term. We have to make sure that we are flexible and dynamic and not just in the export sector. We have to have more flexible labour markets."

However, it is never wise to write off Germany. Time and again, the country has demonstrated its resilience. Twelve months ago, few would have guessed that economic growth this year would be as strong as 2.5 per cent or that 3 per cent growth next year appeared a realistic possibility.

Business is demonstrating that Germany is capable of change. The big question is whether the political class and the population can also adjust to a rapidly changing world while maintaining Germany's enviable record of social stability.

IN THIS SURVEY

Production editor: Roy Terry

Crown Prince Wolfgang Schäuble (right) and the new generation of "young wild ones" – Ole von Beust, Roland Koch, Peter Müller and Christian Wulff

CHRISTIAN DEMOCRATIC UNION • by Peter Norman

The Union needs new ideas

Bonn coalition's dominant parties face pressure to change ahead of the post-Kohl era

For Matthias Wissmann, *transport minister*, and, at 48, one of the younger Bonn cabinet members, the Christian Democratic Union headed by Helmut Kohl and the Christian Social Union, its Bavarian sister, are a phenomenon. Known collectively as "the Union", they dominate the three-party *coalition government* in Bonn and constitute "the one mass party in Europe that has successfully come through the post-war period and which still commands 40 per cent support".

The Junge Union, the youth wing of CDU and CSU, is less enthused. It believes the Union is living on past successes and need to finds new directions into the 21st century. At last month's annual CDU congress in Leipzig, the Junge Union demanded a sharper profile for its parent parties. It complained that the small Free Democrat party, the third member of the Bonn coalition, had too much influence over government policy and that the CDU was losing ground to the opposition in such "classic" policy areas as sound finance, deregulation, education and the support of medium-sized businesses.

There is some truth in both viewpoints. The Leipzig *meeting showed the CDU is* still a formidably disciplined political organisation after 15 years heading the ruling coalition in Bonn and after 24 years of Mr Kohl's leadership. But the enthusiastic applause given to the forward looking, policy oriented speech of Wolfgang *Schäuble, leader of the CDU* and CSU MPs in the Bundestag, indicated a strong desire for new ideas to take the party into the post-Kohl era.

To some extent, Mr Kohl, who will be 68 in September 1998 when seeking a fifth consecutive term as chancellor, acknowledged this wish when he told German television that he would like to see Mr Schäuble, 55, as chancellor "some day". But the subsequent clarification that Mr Kohl expected to run the Bonn government until 2002 if he won next September's general election took some of the lustre off Mr Schäuble's nomination as "crown prince" and showed how the change of generations will be no easy matter in the centrist Union parties.

The outward calm cultivated by the CDU conceals a host of worries. There is the position of Mr Kohl, still dominant in the party, but showing his age with increasing frequency and *lagging in the opinion polls.* There is uncertainty whether Mr Schäuble, despite his ability, can successfully lead the party and government because he has been confined to a wheelchair since an assassination attempt in 1990.

In addition, Mr Schäuble's *promotion to chancellor-in-*waiting revived strains in the partnership between the CDU and CSU. These were especially acute during the summer when Theo Waigel, finance minister and CSU leader, voiced his concern with the state of the government and upset the chancel*lor and Bonn coalition by* calling for a cabinet reshuffle.

That row was settled in September when Mr Waigel backed down. For the Bavarian leader, it was a consolation to know Mr Kohl was still in charge because he would never lead the CDU into coalition with the main opposition Social Democratic party. Mr Kohl's abiding preference for a coalition of CDU/CSU and the small Free Democrat Party has given the CSU, with a phalanx of 50 MPs in Bonn, an influence that goes far beyond that of a regional party which at the last election netted 7.3 per cent of the national vote.

Mr Schäuble's position is more ambivalent. He could expect to play a leading role in a CDU/SPD cabinet and might even be chancellor if his own party emerged with the biggest single block of MPs from the general election. Such a "grand coalition" of Germany's two big*gest political parties would* threaten to marginalise the CSU.

On the eve of the Leipzig meeting, Mr Schäuble made clear that he would not strive for a grand coalition with the SPD and that such a government would be "wrong" for Germany. But *conscious of the weakness of* the FDP, which could fail to re-enter the Bundestag if it repeats its recent Hamburg state election performance in next year's nationwide poll, he admitted that a grand coalition could happen and that "if it happens, the world will not go under".

In his address to the congress, Mr Schäuble also went out of his way to stress the CDU's interest in environmental issues, usually *regarded as the preserve of* the Greens.

The political challenge facing Mr Kohl is to persuade the electorate that the CDU and, with it, the Bonn coalition, are best qualified to handle the pressures of globalisation and the introduction of the European single currency.

Adapting to economic and social change is not easy for CDU or CSU. As broad based "peoples' parties", they must always balance the interests of a wide spectrum of Ger*man society.*

The government officials, small business people and office workers who make up more than 60 per cent of the CDU's 636,000 members have much to lose in a fast changing world. Mr Kohl's party is also growing old, with an average age of 54.

On the other hand, Mr Schäuble's new status as chancellor-in-waiting could give the party greater appeal by conveying a message of stability and change in an uncertain world. The CDU has also nurtured a generation of younger politicians, aged around 40, who are gaining experience as opposition leaders at state level. The so-called "young wild ones" include Ole von Beust in Hamburg; Roland Koch in Hesse; Peter Müller in Saarland and Christian Wulff, who will challenge Gerhard Schröder, a possible SPD chancellor candidate, for the premiership of Lower Saxony in the state election on March 1.

*Although sometimes criti*cal of Mr Kohl and impatient with the compromises forced on the CDU by its FDP coalition partner in Bonn, the young wild ones have buckled down and pledged their loyalty for 10 months of campaigning that will include state elections in Saxony *Anhalt, Bavaria and* Mecklenburg Vorpommern, as well in Lower Saxony and at federal level.

These younger politicians mark out the CDU from the SPD, whose leading figures are almost entirely drawn from the generation that rose to prominence in the aftermath of the 1968 student disturbances.

The CDU will build next year's general election campaign around Mr Kohl and Mr Schäuble. If that fails, it can at least start planning for the next century when today's young wild ones will form a new generation of leaders.

SOCIAL DEMOCRATIC PARTY • by Ralph Atkins

Countdown to the elections has begun

Although the battle lines are being drawn, the contest is far from won

Germany's opposition Social Democrats have started the *countdown.*

Every time Helmut Kohl, the chancellor, sweeps in his motor cavalcade from the chancellor's office to his Christian Democratic Union's party headquarters *he has to pass the SPD's new* "campaign centre". On top of the otherwise-modest office block along Bonn's main highway, is a Tiananmen Square-style digital clock, counting the minutes until the federal elections next September 27.

The centre, equipped with *computer intranet links to* 352 SPD offices across Germany, is the most visible manifestation of the party's *electoral preparations.* Modelled on the UK Labour party's "war room", the cam*paign centre is intended to* improve party discipline, speed response times and ensure political themes are presented effectively.

Behind the scenes, those messages and themes are being honed. Oskar Lafontaine, party leader, is overseeing attempts to mesh tra*ditional SPD concern over* social justice with modern themes such as innovation and fiscal rectitude.

But although the battle lines are being drawn, the contest is far from won. Despite Mr Kohl's difficulties over the past year in implementing reform and prevent*ing remorseless rises in* unemployment, the SPD has not yet struck a convincing lead over its main rival. Although its campaign centre might be comparable to that of the UK Labour party, its prospects, less than a year before the election, of defeating the incumbent government are certainly not. The SPD is still seeking from voters what Franz Müntefering, general secretary, describes as a "perspective change".

Opinion polls put the CDU and its Bavarian Christian Social Union sister party on about 36-38 per cent of the vote. The SPD is only a few percentage points higher, which – if the election were *held immediately* – would leave the party at least reliant on the Greens winning sufficient votes to create a coalition with a workable majority. Worse, the SPD's best chance might lie in a "grand coalition" with mem*bers of Mr Kohl's CDU.*

A possible omen was September's elections in SPD-controlled Hamburg when the party suffered its worst result in the city state since the second world war, forcing Henning Voscherau, hitherto regarded as a future federal finance minister, to resign as Hamburg's mayor.

Why has the SPD found the going so tough? Part of the SPD's problems are caused by a political system that involves all the main parties in decision-making – *making difficult the task of* carving a separate identity. Although the CDU/CSU is in government at federal level, the SPD controls a majority of the 16 federal states. That means it not only is involved *in running state govern*ments, it also has control of the Bundesrat, or second chamber of parliament representing the states.

With much of the government's reform programme requiring Bundesrat approval, the SPD has been linked with the failure to *address Germany's struc*tural problems. In particular, the SPD has blocked plans to overhaul the country's complex and unfair tax system. That has left it prone to the same voter disenchantment which has hit the ruling Christian Democratic/Christian Social union.

At the same time, the strength of federalism and the proportional representation system mean the party has not been able to rely on importing electoral tactics which were successful in the UK. For instance, the German electoral system means it is pointless targeting par*ticular seats because results* are evened out overall. Federalism requires tailoring campaigns to match regional interests and also to take into account a calendar of state elections ahead of the federal contest.

The SPD has faced other obstacles. Most obvious, it has yet to choose its chancellor candidate. It will not be clear until next Spring whether Mr Lafontaine, the prime minister of Saarland and the SPD's unsuccessful candidate in the 1990 elections, will take on the challenge himself or make way for Gerhard Schröder, the charismatic SPD prime minister of Lower Saxony.

The decision to wait has *advantages. Mr Müntefering,* party secretary, says it leaves Mr Kohl unsure who to target and offers a chance for the SPD to display some evidence of team work – not always a strong point in the past. "They [Lafontaine and Schröder] are back to back. Nobody can put a knife in. And the chancellor doesn't know which one to go for," he says.

Waiting also allows Mr Schröder to test his electoral *support.* He has said that he will not stand for chancellor if his share of the vote slips more than two percentage points in state elections in Lower Saxony next March. Had he been selected as *chancellor candidate* beforehand, a poor Lower Saxony result might have undermined his run for the chancellorship.

But without a clear leader, the honing of political messages has not proceeded as fast as might otherwise have been possible. Despite, their *display of unity,* there are clear differences between Mr Schröder and Mr Lafontaine. The former has long sought to portray himself as a friend of business and innovation, making high-profile trips in the past year to the US and to visit Tony Blair, the UK's Labour prime min*ister.* But he has weaknesses. Mr Schröder has cast himself as a sceptic on the planned European single currency, leaving himself at odds not only with much of his party but also with the Euro-supporting *Green* party, possible allies in a coalition government.

For his part, Mr Lafontaine has won admiration for imposing a greater sense of discipline across the party. He has also begun setting out fundamentals for an economic and financial programme based on restraint rather than on high spending. He has put some empha*sis on social benefit reforms* which promote self-responsibility and which encourage recipients back into the labour market.

But – in stark contrast to the UK labour party – Mr Lafontaine has alienated business with an emphatically leftist agenda. After he *sank the government's tax* reforms, Hans-Olaf Henkel, president of the German industry association, complained that "an old ideological fear of the markets" still haunted the SPD. Subsequently, Mr Lafontaine has also sided with unions to advocate the end of wage restraint, arguing that the resulting increase in domestic demand would help boost *employment.*

No matter how effective the party's campaign machinery, the impression remains that the SPD's attachment to its traditional socialist past is obscuring modernist aspirations.

Oskar Lafontaine: alienated business with an emphatically leftist agenda

FREE DEMOCRATIC PARTY • by Ralph Atkins in Bonn

The thorn in Kohl's side

The FDP's fortunes have fallen to the point where it faces political oblivion

The liberal-orientated Free Democratic Party might finally be about to face life in the cold after playing a pivotal role in German governments, with few interruptions, since the second world war.

It has not been a good year for the FDP, junior party in the governing coalition of *Helmut Kohl, the chancellor.* The collapse of government tax and pension reform plans has reflected badly on a party which sets sweeping economic reform as its most important priority.

It has become cast as the thorn in Mr Kohl's side, challenging the orthodoxy in his coalition on a range of issues from specific tax cuts to compulsory military service, to dual nationality for German-born children of foreigners.

It is increasingly probable that next September's election will lead to a significant *political realignment. Polls* suggest Mr Kohl's Christian Democratic/Christian Social Union might not be able to muster a majority, even with the support of the FDP.

A coalition of the opposition Social Democrats and the Greens is unlikely to offer a home for the free market party. Nor would a "grand coalition" of Social Democrats and the CDU/CSU.

Worse, the FDP could well fall below the 5 per cent threshold needed to win seats in the Bundestag, *or* lower house in parliament.

Why have the party's fortunes fallen to the point where it stares at political oblivion? In part, it is because the FDP perhaps articulates unpopular truths about the need for reform with a brashness that upsets traditional German conservatism. "The future capability of our country demands a liberal, freedom-orientated party. The weakness of the FDP has become a weakness of the system," says Rainer Brüderle, deputy federal chairman.

The party's sometimes "preppy" image – Guido Westerwelle, the trendy-dressing general secretary, is just 35 – does not help. The FDP also suffers from a relatively weak hand in the cabinet. *Klaus* Kinkel, former party leader, attracts a following as foreign minister and has a high profile.

But Mr Kohl dominates on the biggest issues. And the most important aspect of Germany's foreign policy – the deepening of economic links within the European Union – is driven more by Theo Waigel, the finance minister.

Meanwhile, Günter Rexrodt, economics minister, hardly exemplifies liberalism at work as head of a department which is still largely defined by its responsibilities overseeing state subsidies across Germany.

A more fundamental *weakness of the FDP is that* the party has no clear-cut role. True, it acts almost as the free market conscience of Mr Kohl's Christian coalition. But Mr Waigel, leader of the Bavarian Christian Social Union, and Wolfgang Schäuble, CDU *parliamentary leader, are as* zealous about economic reform.

The FDP does not have the same sense of purpose as during the heyday of Hans-Dietrich Genscher, the *FDP's former* chairman and German foreign minister between 1974 and 1992. Mr Genscher was *crucial in* foreseeing how Mikhail Gorbachev's "new thinking" in Moscow could bring an end to the cold war. He was also instrumental in the eventual unification of Germany.

The FDP now is left focused on a liberal, domestic agenda where there are few places to be claimed in the history books. Would a period out of office be fatal? Probably not if the party remained in the Bundestag. But if the FDP slipped from view at the federal level, the task of redefining its purpose would be *greater* still.

PROFILE Theo Waigel

Resilient Bavarian

Theo Waigel: carrying a heavy burden alone

The finance minister has bounced back from a catalogue of setbacks

If there was a prize for Germany's most resilient politician, Theo Waigel, the finance minister and leader of Bavaria's Christian Social Union would be a hot contender.

True, Helmut Kohl, the chancellor, has been at the top much longer, heading the federal government for more than 15 years and the Christian Democratic Union for 24. Moreover, Mr Waigel, in spite of holding cabinet office for nearly nine years as Germany's longest-serving finance minister, cannot match the record of Norbert Blüm, the labour and social affairs minister. Mr Blüm and Mr Kohl are the only survivors of the team that took office in 1982 when the Social Democrat-led government of Helmut Schmidt lost power.

But over the past year, Mr Waigel, 58, has, time and again, been in the line of fire. It is easy to see why.

As finance minister, he must help persuade a sceptical public, especially in his native Bavaria, that the European single currency will be good for Germany. He must ensure that Germany will meet the economic convergence criteria of the Maastricht treaty and so be among the founding members of the European economic and monetary union from January 1 1999.

He takes the blame for unpopular budget cuts needed to bring the public deficit down to 3 per cent of GDP in line with the Maastricht treaty. He must also ensure the federal budget does not break the constitutional "golden rule" that specifies the deficit must be less than the level of federal investment.

As leader of the CSU, Mr Waigel has to contend with a shrewd and ambitious rival in Edmund Stoiber, prime minister of Bavaria.

Mr Waigel has had a rotten year trying to cope with these pressures. He made a political error in the spring when he sought to bolster the federal finances by revaluing the Bundesbank's gold reserves and transferring part of the proceeds to Bonn. The Bundesbank scotched the scheme.

In July, faced with the soaring costs of record unemployment, he introduced a supplementary budget for 1997 that admitted borrowing would exceed investment. The budget, still to be approved by the Bundestag, controversially escapes the stigma of being unconstitutional by asserting the economy is "out of balance" because of high unemployment.

There have been other setbacks. During the summer "silly season", Mr Waigel's call for a cabinet reshuffle and his televised musings about wanting another job after the general election eroded his position, angered Mr Kohl, antagonised the CDU and weakened the Bonn coalition. His plans for a radical tax reform that would encourage investment through lower tax rates while reducing tax privileges have foundered because of the opposition of the Social Democrat-led Bundesrat, the second chamber of the parliament representing the states.

For a time, the strain showed. Mr Waigel's good humour began to fray. He would appear rattled when booed by angry farmers and other protesters in his native Bavaria.

Problems remain, not least the sluggishness of tax revenues that forced a draconian freeze on discretionary spending last month and cast doubt over whether he will be able to keep federal borrowing within constitutional limits.

But recently he has bounced back, buoyed by growing expectations that Germany will meet the Maastricht deficit criterion this year and by Mr Stoiber's decision not to run for leadership of the CSU at the party's annual congress this month. Mr Waigel has mended fences with the CDU, winning a standing ovation at last month's party congress in Leipzig after a characteristically robust speech.

Mr Waigel often says that, without the burdens of German unity, he "would probably have been Germany's most successful finance minister". It is unlikely that history will be so kind. But he deserves recognition for doggedness and determination.

Peter Norman

THE GREENS • by Ralph Atkins in Bonn

Kingmakers in waiting

Prospects for the environmental party have been brightening markedly

Could the German Greens be on the brink of entering the federal government?

The changing political kaleidoscope in Bonn has seen the prospects for the environmental party brightening markedly. The Greens, with support in opinion polls running at about 10 per cent, could well be kingmakers in coalition talks after next September's federal elections.

In part, its enhanced prospects are due to circumstances. Neither the Social Democratic Party nor the Christian Democratic/Christian Social Union led by Helmut Kohl, the chancellor, have a clear lead. The weakness of the Free Democrats would leave both the main parties looking for alternative government partners.

But the Greens have also generated success for themselves. Joschka Fischer, the highest profile of the Greens' leaders, is a popular politician with a canny knack of articulating the Zeitgeist, rather than predictable opposition mantras.

Mr Fischer's parliamentary speeches predicting the Wagnerian twilight of Mr Kohl's leadership have been among the most wounding for the chancellor. But Mr Fischer is also a passionate supporter of the planned single currency - which puts him at odds with the more-sceptical Gerhard Schröder, prime minister of Lower Saxony and likely SPD candidate for chancellor.

The Greens can also be modernist, for instance, embracing ideas about updating traditional German decision-making between workers and employers to take account of a nascent shareholder culture. The party has even won tributes from business for the strides it has made towards updating its economic and financial policies.

An attachment to ideas of individualism and decentralisation leaves open the possibility of not only a government coalition with the SPD – the implicitly stated aim of both the Greens and SPD – but conceivably with Mr Kohl's CDU. Indeed, the idea of a "black-green" alliance with the CDU has gained currency following a markedly environmentalist-orientated speech by Wolfgang Schäuble, CDU parliamentary leader, at his party's conference in October.

Nevertheless the Green party is far from invincible. Its performance in state government is mixed – punctuated in North Rhine Westphalia, for instance, by acrimonious rows with the SPD over energy policy.

At federal level, meanwhile, Greens have become embroiled in a damaging row over initial drafts of the election manifesto, scripted by the fundamentalist wing, which proposed, inter alia, massive petrol taxes, drastic cuts in the armed forces and the abolition of the Nato defence pact.

The reassertion of fundamentalism has not helped endear the Greens to possible coalition partners, raising alarm bells within the SDP. "We're not drawing up a coalition programme that suits the SPD," says Jürgen Trittin, party spokesman.

Mr Fischer has expressed exasperation: "It can't be right that so close to the heat of the election battle we fall back into bad old habits". But the dispute has threatened to dominate the run up to next September's federal election.

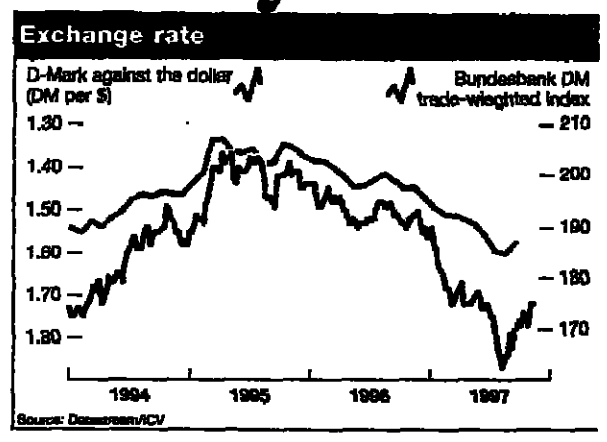
Harald Händel, press spokesman, said an open debate and radical ideas "is what people expect" from the Greens. But the danger is that voter trust will be progressively eroded by extreme thinking, damaging indecision and bickering.

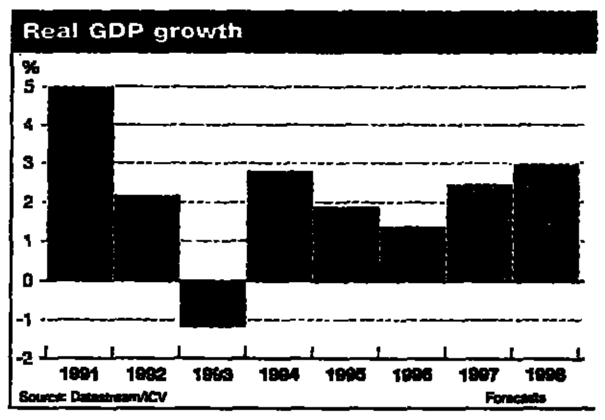
After all, the Greens are just as capable of losing elections as the other parties.

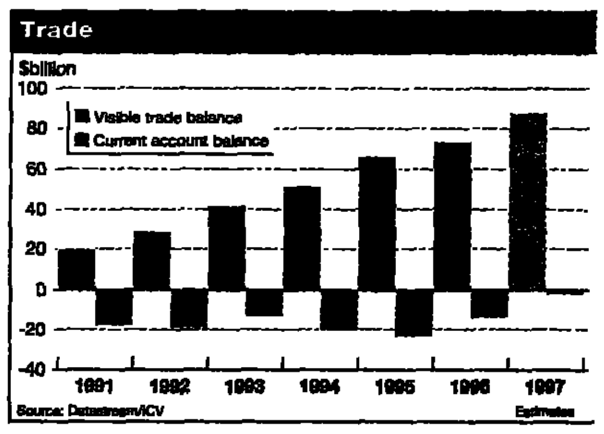
THE ECONOMY • by Peter Norman in Bonn

Health not yet restored

Unemployment reflects how the country has fallen behind its nimbler rivals







Right on cue, the German economy is recovering smartly ahead of an election year.

When in January the Bonn government's annual economic report forecast 2.5 per cent growth this year, it was widely criticised for being over optimistic. Now, with private sector economic forecasts being revised upwards, such a target appears realistic and there are strong expectations that growth next year will exceed 3 per cent.

But stronger growth does not mean Germany is returning to economic health. Unemployment, according to official, seasonally-adjusted figures, affects nearly 12 per cent of the working population. The adjusted jobless total rose for the seventh consecutive month in October to touch a new record of 4.52m. The upturn has so far done nothing to revive tax revenues, which lagged sharply behind expectations in the first nine months of this year and appear to have become decoupled from the business cycle.

Growth has been heavily dependent on booming exports, which have profited from this year's decline in the D-Mark's value against the dollar and other currencies outside the European exchange rate mechanism.

Germany is expected to notch up a record visible trade surplus this year, topping last year's post-unification high of DM105bn. Merchandise exports exceeded imports by DM77.5bn in the first eight months of this year while export orders for manufacturing industry in August and September were 18.3 per cent higher in volume terms than in the same period of last year.

The positive effects have been felt above all in the manufacturing sector where output in the third quarter was 4.8 per cent up on the same period of last year.

But while business confidence and plant utilisation have risen, there has been little inclination on the part of employers to increase staff. On the contrary, a sharp rise in productivity since 1993 testifies to a significant shake-out of labour by the private sector.

Over the past 12 months, politicians and trade unionists have looked on grimly at a growing divergence between rising German equity values and growing corporate profits on the one hand and declining employment on the other. The most recent figure - for August - put Germany's working population at 34m, some 460,000 fewer than 12 months before. Unemployment in October was 423,500 higher than in October 1996.

The productivity improvements will stand Germany in good stead as it faces the challenge of ever more fierce international competition. But high and rising unemployment shows how far the country of the post-war economic miracle has fallen behind nimbler rivals in Europe and further afield.

The government's 50-point programme for more growth and jobs, introduced in 1996, was a belated response to excessive rigidities in the German labour market and an over-generous welfare system that has sapped individual initiative. Because of the tactics of the opposition Social Democrat party, which controls the Bundesrat, the second chamber of the Bonn parliament, a potentially far-reaching reform of Germany's complex and inequitable income tax systems foundered late in September.

Germany's difficulties in absorbing the former communist eastern Germany have become increasingly apparent over the past 18 months. Despite a staggering DM1,000bn of transfers from the west in the seven years since unification, the new Länder are far from enjoying self-sustaining growth.

Unemployment, which is showing signs of stabilising in western Germany, is continuing to rise in the east where the seasonally adjusted jobless rate of 19.2 per cent was nearly twice the 9.9 per cent western level. Of the people who joined Germany's army of jobless in the past year, 64 per cent live in eastern Germany.

Special factors have exacerbated eastern Germany's misery. The construction boom and catch-up in demand for consumer goods that followed unification have run their course. The Bonn government, under tight budget constraints in preparation for European economic and monetary union, has cut back retraining and "make-work" schemes.

More worrying is the continuing weakness of export industry in the region. As a result, the growth of the eastern German economy is expected to lag about 0.5 percentage points behind the national growth rate this year.

Germany's trade unions, led by the powerful I G Metall, have reaped a bitter harvest from their success in forcing eastern German wages upwards towards western levels after unification. While wages in eastern Germany still lag those in the west, average productivity is even lower. As a result, the Bundesbank has calculated that wage costs per unit of production are on average about one quarter higher in the east than in the west.

Western Germany, therefore, will be the main beneficiary of any broadening of this year's export led growth to the home economy. But the prospects for a more robust domestic economy are at best unclear. Business investment, according to the German federation of industry (BDI), has revived. But growth is sharply lower than the double-digit expansion of previous economic cycles.

Consumer demand has fallen victim to modest, non-inflationary wage increases, the failure of the government's tax reform plans and the government's inability to prevent individuals' contributions to the state welfare system, and in particular Germany's creaking pay-as-you-go pension system, rising further.

Meanwhile, the Bundesbank last month ended a 14-month stretch of record low interest rates when it increased the securities repurchase or repo rate, which determines Germany's short-term borrowing costs, to 3.3 per cent from 3 per cent. Although Germany's annual inflation rate is relatively low at around 2 per cent, the central bank was determined not to take any risks in view of a sharp increase in imported goods prices during the summer and abundant liquidity in the banking system.

The European Commission's recent forecast that Germany would meet the Maastricht Treaty public deficit target of 3 per cent of gross domestic product for the euro this year has eased earlier fears that Germany might fail to qualify for the single currency without a fudge.

The Bundesbank action, however, was a timely warning to the government in Bonn and Germany's European partners that the central bank expects the successor to the D-Mark to be a hard currency and that it will make no concessions to stability as next year's German general election approaches.

WORLD OF WORK • by Graham Bowley and Frederick Stüdemann

Job evaluation needed

Workers and their unions have in some cases begun to make concessions

There are few subjects which seem to occupy public debate in Germany these days more than the problems of the country's inflexible labour market. Germany's dole queues stubbornly refuse to shorten even though economic growth is picking up and large companies are prospering.

German employers operate in one of the most regulated and inflexible labour markets in Europe. German workers enjoy generous employee benefits and labour laws, which have heaped costs on businesses and put them at a disadvantage to their international competitors. Many companies have been ill-prepared to cope with the swelling forces of globalisation which have swept Germany, just as they have swept other countries in Europe.

As a result business has been forced to cut back on jobs at home while several have moved large swathes of production to cheaper locations abroad. In the process, Germany's consensus-based model of industrial relations has been jolted, with unions coming under increasing pressure to make concessions to safeguard jobs in Germany.

The German public is facing the stark choice of whether the country should continue with its long-standing, heavily-regulated working system, or whether a shift to the Anglo-Saxon model – which is succesfully delivering thousands of new jobs in the US and UK – is inevitable.

So far, progress has been slow. Germans still work a relatively short working week – in some industries it has shrunk to an average of 35 hours – and IG Metall, the country's biggest union, provoked widespread anger among business when earlier this year it called for a further shortening to 32 hours a week.

According to the International Labour Organisation, trade union membership in Germany fell by around 20 per cent between 1985 and 1995. Some companies are beginning to set pay deals on a localised basis with factory-specific agreements. But around 90 per cent of pay deals are still set on an industry-wide level through collective pay bargaining.

However, faced with high unemployment, German workers and their unions have in some cases begun to make concessions.

Within the past year, for example, several large companies have struck deals with their workforces which offer employees a measure of job security in return for lower labour costs and more flexible working hours.

Several businesses have been able to secure agreements which allow them to adjust their workforces' working time in line with demand. Opel, the carmaker, has introduced working "corridors" which allow management to increase or decrease working hours within an upper and lower limit. Under such an agreement companies can ask their employees to work longer hours and at weekends when demand is strong and to work shorter weeks when order books are not so full – a practice unheard of in the past.

In its attempt to achieve greater flexibility, Volkswagen in June agreed a landmark early retirement deal with its older workers which enabled it to take on younger employees.

The chemicals industry, which, in IG Chemie has one of the most progressive unions, has seen some of the biggest changes in working practices. In a deal struck between management and workers earlier this year, companies won the freedom to cut wages by up to 10 per cent during economic downturns in return for not laying off workers. In a similar deal in the car industry, Ford's loss-making German arm cut workers' benefits to save $120m a year in costs in return for keeping jobs and investment in Germany.

There has also been progress in clamping down on Germany's high worker-absentee rate which has traditionally been a heavy burden for German companies.

For example, when Daimler-Benz – Germany's biggest industrial conglomerate – decided to build its new Smart car in France, one of the reasons it gave was that French workers had a better work-attendance record.

Opel, the carmaker, has reduced the absenteeism which plagued it by agreeing with its workers a scheme which linked holiday bonuses to a factory's absenteeism rate. The company says this has cut the rate by around 50 per cent.

> Employers operate in one of the most regulated and inflexible labour markets in Europe

East Germany seems an unlikely place to look for solutions to the country's labour market problems. In October, 1.46m people in the region were registered as unemployed, an unadjusted rate of 18.2 per cent. When those people in retraining or on "make-work" schemes are taken into account, the rate is considerably higher.

But with unemployment so bad, unions and employers in the east have been prepared to consider relatively radical measures, some of which could prove instructive for the German labour market as a whole.

The by-passing of the industry-wide collective pay-bargaining system has been the most noticeable example. While this is still widespread in western Germany, an estimated two thirds of employees in the east now have contracts negotiated in localised settlements, often at plant level.

Pay rates are thus often lower than those agreed in the collective system. In 1996, according to the Bundesbank, east German wages negotiated collectively were roughly 90 per cent of those in the west while those negotiated locally were only 77 per cent.

Localised agreements have also enabled east German companies in some sectors to secure a small competitive edge over their western competitors. In Berlin building companies from the surrounding state of Brandenburg which have localised pay deals have, for instance, been able to win orders ahead of competitors locked into the collective system.

Such practices have produced surprising results. Under pressure from local unions, who claimed their members were becoming the victims of "wage-dumping", the city of Berlin decided in 1995 to stipulate that public contracts for road-building work be awarded only to companies with pay rates in line with levels set within the collective bargaining process.

This move has now been challenged in a test case with national implications because a majority of Germany's 16 Länder have adopted contractual stipulations similar to those in Berlin. In a ruling earlier this month the federal cartel office said Berlin was acting in an uncompetitive manner by discriminating against people outside the collective bargaining system.

The cartel office's decision is not yet legally binding and will anyway be challenged in court by the Berlin Senate.

But if the cartel office wins the case, by championing the right of construction companies from Brandenburg to dig up roads in Berlin at a competitive price, it will have opened the door to a further loosening of the national collective bargaining system as a whole.

PROFILE Hubertus Schmoldt

Flexibility the watchword

The system of industrial relations faces a choice of change or extinction

While Germany's labour markets have a reputation for inflexibility, there are some notable exceptions. One such exception is the chemical industry, one of Germany's most important industries. In BASF, Hoechst and Bayer, Germany has some of the world's best-known chemical and pharmaceutical companies.

The main chemical trade union is IG BCE, formerly known as IG Chemie, one of Germany's most moderate and modern trade unions. Its Hanover headquarters are housed in a large post-modern building with steel tubes running inside and outside.

Its new initials are the result of a merger in October between the old IG Chemie and the mining and energy unions. The combined IG BCE has around 1m members and it is Germany's second largest trade union after the powerful and better-known IG Metall, the engineering union.

Hubertus Schmoldt, IG BCE's youthful president, believes that the peculiar German system of industrial relations is not incompatible with flexibility. Under the system – known in this form only in Germany and Austria – trade unions and employer representatives in each of the large industrial sectors negotiate regional wage tariffs.

He says bluntly that the German system of collective wage bargaining faces a choice of change or extinction. "If we do not equip the real wage tariffs with instruments that take account of the specific situation of the business, then they will expire as a vehicle of wage policy."

His own union has embraced flexibility, he says, to a degree even that would surpass the needs and capability of most employers.

He says: "If companies were to use all the existing opportunities, then there exists an enormous array of flexible instruments. We have a working time window, which spans from 35 hours a week to 40 hours. We have a three-year time account during which employees can achieve their 37.5-hour average. We have a completely new flexible-wage 'corridor', which helps companies recover without having to dismiss employees."

He then lists other flexible arrangements, such as the new part-time contracts, specific part-time arrangements for older workers before retirement, and even opt-out clauses which allow companies to opt out of existing contracts during a life-threatening crisis.

So far, fewer than 12 companies have taken advantage of the opt-out clause. He complains that companies often do not make use of the instruments, especially the part-time work contracts.

The chemical industry is also one Germany's most profitable business sectors. Its wealth has contributed greatly to the peaceful and strike-free industrial relations the industry has enjoyed for several decades. IG BCE is considered one of Germany's most moderate trade unions. As such it is a pariah at the national meetings of the DGB, the German trade union umbrella group.

On the other hand, Mr Schmoldt was a welcome guest speaker at last month's annual congress of Chancellor Kohl's Christian Democratic Union.

There are limits, however, to his union's moderation. Mr Schmoldt has serious reservations about the "shareholder-value" strategy at Hoechst, the Frankfurt-based chemical and pharmaceutical giant which has been pursuing a radical strategy of focusing on core businesses while spinning off non-core operations.

"The corporate strategy of Hoechst is one that causes me the greatest headaches ... Such a company will be in danger if it experiences turbulence in its core business." He

Hubertus Schmoldt: predicts more mergers among unions

dismissed the shareholder-value concept, so eagerly pursued in many German boardrooms, as the latest fad dreamed up by business consultants. He predicts that this strategy will disappear within a few years.

Mr Schmoldt appears to be concerned that the radical policy at Hoechst might over time infect the industrial relations climate in the industry.

With this comes a veiled threat. "If companies change in their basic attitudes towards our relationship, then this is bound to affect our own behaviour. We can only sustain the social partnership if the partners behave accordingly. And no one can say that the social partnership has led to a reduction in profits over the years," he says.

He believes Germany's trade unions will adopt the consolidation process which has taken place in the industry. There will be more mergers among German unions, he predicts, but he says IG BCE has no further ambitions in this direction. Mr Schmoldt also hopes that there will a "concentration of forces" among trade unions in Europe, especially after economic and monetary union.

This would not take the form of unified European trade unions, especially since the German model of wage-bargaining and other models cannot be transplanted across borders.

Instead, Mr Schmoldt is looking for co-operation on work conditions, such as minimum standards, or holiday entitlements, or the number of annual hours worked.

He does not expect any moves towards wage harmonisation or even minimum wages.

The main effect of Emu, he says, will be to stabilise the business environment. The west German chemical industry lost about 100,000 jobs during the 1990s, due partly to the appreciation of the D-Mark against various European currencies, and to intensified global competition.

Workers in the pulp and paper business are part of IG BCE's clientele, a sector which has suffered large damage because of the devaluation of the Swedish and Finish currencies.

In 1995, the appreciation of the D-Mark against a number of currencies is believed to have cost between 100,000 and 150,000 jobs in German industry, according to estimates by the federal labour office.

The absence of competitive devaluations is one of the main reasons why German trade unions such as IG BCE are looking forward to the euro.

Wolfgang Münchau

PRIVATISATION • by Andrew Fisher

Family silver up for sale

After the success of Deutsche Telekom many more assets sales are on the way

Günter Rexrodt: called for more a more vigorous and co-ordinated approach to privatisation

The German government has not always been the most enthusiastic of privatisers – certainly not in comparison with the UK – but budget pressures ahead of European monetary union have done much to overcome its reluctance. The same is true of the regional states (Länder) which are also showing an increasing willingness to sell off the family silver.

A year ago, the idea of transferring assets from public to private ownership – and helping to promote the equity market in the process – was given a huge boost by the sale of a large slice of shares in Deutsche Telekom, Europe's biggest telecommunications concern. The DM20bn part-privatisation, which still left the government with a big majority, was a success among investors in Germany and abroad, helped by an unprecedented publicity campaign.

Other large sales are on the way, but some big hurdles need to be overcome before they can go ahead. Both Deutsche Post and Deutsche Bahn (German Railways) are on the privatisation list, as is Deutsche Postbank, the postal savings business. But the rail and post concerns still have to be made financially and organisationally fit for release into the private sector.

A host of smaller disposals, ranging from resort hotels to airport stakes, are also in preparation. Shortly to be completed is the planned government sale of a 6 per cent stake in DG Bank, the umbrella organisation of the country's co-operative banks, for around DM500m.

Theo Waigel, Germany's beleaguered finance minister, recently called privatisation "an important cornerstone" of growth-oriented finance policy, contributing to leaner government, increased competition and more innovation and investment. He pointed out that four of the 10 biggest companies on the German stock exchange had originally been sold off by the state: Volkswagen (in which the state of Lower Saxony still has a 20 per cent interest), Veba, Viag and Telekom.

Lufthansa, the German airline, has also been fully privatised. The latest step took place in October when the remaining 37 per cent of shares in state hands was sold to the public for nearly DM5bn. This share issue was heavily oriented towards retail investors. It followed a DM1.2bn rights issue three years ago, in which the government lowered its stake from just over 51 per cent by not taking up its share entitlement.

Both of the Lufthansa share sales involved sizeable consortia of domestic and foreign banks. The rights issue in 1994 was also a landmark in German privatisation policy since it developed the use of the bookbuilding method in which the best selling price is arrived at by assessing investors' bids.

This avoids excessive volatility when trading in the shares begins, helps ensure that shareholders' interests are favoured more than in past German issues and encourages long-term investors.

Thus the earlier Lufthansa issue was an important precursor of the much bigger Telekom share sale, one of the world's largest. The bookbuilding method – including the so-called greenshoe allotment to satisfy extra demand and smooth out share price fluctuations – was crucial to the issue's international success.

The Telekom sale thus reinforced the credibility of the Bonn government's privatisation policy and whetted the appetite of investment banks for more business on which to earn lucrative fees. As Telekom shares rose sharply in initial dealings, Werner Seifert, chairman of Deutsche Börse which runs the Frankfurt stock exchange, said: "The Telekom privatisation must not remain an isolated event."

Other planned privatisations, however, will be dwarfed by the Telekom sale. Altogether, the federal government has received some DM15bn from privatisation sales since 1983. As well as the big industrial companies, these have included banks (such as Depfa, the mortgage institution), transport operations and housing companies.

Still to come, apart from the post and railways, are sales of federal and regional stakes in airports such as Hamburg, Cologne/Bonn, Frankfurt and Düsseldorf. At Länder level, holdings in such sectors as energy, banking and housing are up for sale or being considered for disposal as treasury finances come under increasing strain.

Günter Rexrodt, the economics minister, recently called for more a more vigorous and co-ordinated approach to privatisation, bearing in mind the volume of assets still to be sold off. These also include federal holdings in the inland Ruhr waterway port of Duisburg and Lübeck harbour on the Baltic, DSL Bank and the federal printing works.

On top of this are extensive property assets in the form of military installations, federal housing and sites in east Germany. The successor body to the Treuhand – the east German state privatisation agency – has some 58,000 properties, of which around a third could be privatised, Mr Rexrodt said.

In all, there are still 424 federal government holdings to be sold. However, 250 of these are subsidiaries of the railway, Telekom or postal companies. Another 100 or so are in the hands of the Treuhand successor body or form part of Saarbergwerke, the state-owned coal mining operation, though these would yield only relatively small sums.

At regional level, the southern state of Bavaria has made the running in recent years with privatisation sales of more than DM5bn since 1994, including a big holding in Viag, the Munich-based industrial conglomerate. But it has been inactive on the privatisation side this year. However, Lower Saxony, Bremen, Hamburg and North Rhine-Westphalia are becoming keener to raise money by selling shareholdings.

Freed from the shackles of state control, leading companies have gained a new lease of life. Lufthansa, for example, has restructured itself, cut costs dramatically and seen its productivity and profits move up sharply.

Telekom is doing the same, while Veba and Viag have now had several years to sharpen themselves up in the challenging climate of the private sector. Shareholders many of them outside Germany, have reaped the benefits.

PENSIONS • by Wolfgang Munchau

Big project imperfectly remodelled

Economists fear plans to change the pensions system do not go far enough

Two big projects have dominated the tail-end of the current parliamentary term in Bonn: tax reform and pension reform.

The ambitious tax reform project failed in the Bundesrat, the upper chamber of parliament, where the opposition Social Democrats have a majority.

The pension reform succeeded, but only in part and only because it was structured in such a way that Bundesrat approval was not needed. It will come into force in 1999. The aim has been to restore balance to pension contributions and payments and to ensure the viability of the unfunded system for another generation. Under this system the payment of pensions is financed directly from contributions of employers and employees.

What is still missing from the package, however, is a rise in value-added tax, meant to plug the gap resulting from the desired cut in contributions. The SPD said it would oppose a rise in value-add tax in the Bundesrat.

Apart from its questionable financial base, there are other fundamental problems with government's approach.

The way Germany finances its pensions is closely interwoven with its competitiveness and the cost of employment. Pension contributions are paid directly out of wage costs, but the system is only compulsory for people in salaried employment. The self-employed and the country's large number of civil servants are exempt.

The four components of social security – pensions, health, unemployment and old-age care – make up around 42 per cent of wage costs. Pensions alone make up 20.3 per cent, rising to 21 per cent next year.

Pensions payments are financed directly through contributions, topped up by a government subsidy, which this year runs to DM68bn. Unlike the funded pension systems common in the US or the UK, the system knows no capital formation, although its overall "wealth" grows with the economy's productivity.

The advantage of this system is flexibility. It suited Germany's unstable politics in the 20th century. It coped with all kinds of external shocks, wars, currency reform, and German unification, which alone brought 4m pensioners into the system overnight. No private system could have coped with that.

One of the main problems is high sensitivity to demographic shocks.

Falling birth rates since the 1970s mean that the system is facing a demographic squeeze from 2010 onwards, which could grow to critical levels from 2030, according to some forecasts.

Also the strong growth in international equity markets and of stock values has widened the performance gap between unfunded and funded systems. Germans are becoming increasingly aware that their system compares poorly with the returns available from pensions linked to stock markets.

Germans have been pondering whether to reform or replace the existing system. Alternatives include a funded pension system, a tax-financed state pension, or the "privatisation" of the current system, which would involve splitting it up into competing privately run funds.

Germany may have to follow Scandinavia and raise the pensionable age above 65 *Picture: Fergus Wilkie*

The government has chosen gradual reform of the current system. The key stipulation is a reduction in contributions to below 20 per cent of wages. But critics warn that the reforms are too timid and too short-sighted.

The main element of the reform package is a gradual cut in the maximum pension from 70 per cent of net income to 64 per cent.

What are the alternatives to this approach?

The independent Institute for Economy and Society (IWG) in Bonn is working on a proposal for a tax-based basic pension. This has no realistic chance of being adopted in the current parliament, or even in the next parliament, given the politics of Germany at the moment. But it may point the way to future reform efforts.

Stefanie Wahl, a senior academic at IWG, says "the long-run trends suggest that change is going to happen. There is not only the change in demography, but also fundamental changes in the labour market – the tendency towards self-employment, part-time labour and the persistently high levels of unemployment".

IWG has proposed a net basic pension of around DM1200 per month, after contributions for health and old-age care insurance, financed from the tax system. Individuals would be able to arrange their own pensions top-ups in the free market.

The proposal has received little political support. One notable proponent is Kurt Biedenkopf, the popular CDU premier of Saxony. Mr Biedenkopf, however, carries little political weight in his party, because of long-standing animosity between him and Chancellor Helmut Kohl.

Ms Wahl argues that the case for reform is urgent. "We have already wasted some good demographic years in the 1980s and 1990s," she says.

Günter Albrecht, spokesman for the federation of German pension insurance institutes, a group consisting of employers and employee representatives, believes that there is no politically realistic alternative to internal reform of the system.

He says the employer and employee representatives in the institute may disagree on a wide range of issues, but the one policy they all support is the retention of the current system.

"You cannot get away from this system without extremely long transitional periods or without an entire generation of pensioners suffering injustice."

This is the point where the Federal Constitutional Court comes in. One of the principles the court is frequently called upon to uphold is the right of equal treatment. If the government decided to implement reform that would boost the living standards of one generation of pensioners at the expense of another it would risk being struck down by the Constitutional Court.

But to reform the system to ensure fairness and efficiency gains at the same time would be politically controversial, and might even have serious economic disadvantages. Employers and employees would have to accept higher contributions in the short-term in order to build up a sufficient capital stock. This would defeat a central motivation behind pensions reform: the wish to reduce the cost of employment.

The numbers involved are mindboggling. The capital requirement to finance the current system – on a funded basis – is DM10,000bn, roughly three times the size of Germany's gross domestic product.

The result is that the present system is likely to survive, in reformed guise. There remains scope for further adaptation. Early retirement schemes have already been cut, and at some point Germany may follow the Scandinavian example of raising the pensionable age above 65.

It will always be possible to find a formula that balances the income and outlays of the system. The risk is that the system will increasingly be perceived, especially among the younger generation, as offering poor value for money. The pensions debate will go on and on.

EDUCATION • by Graham Bowley and Ralph Atkins

Lessons in reform

Bonn is seeking a shake-up to modernise parts of the creaking education system

Germany's recent dismal economic performance has exposed severe shortcomings in higher education and research establishments and its once-admired vocational training system.

Exasperated critics ask what would have happened if somebody like Bill Gates had tried to set up his software business in a garage in Germany? Their answer: he would have been stopped by rules regulating the amount of daylight employees should enjoy.

Whether the quip is fair, the point is clear. Nowhere, perhaps, has pervasive German bureaucracy proved more damaging than in its universities and research establishments. Innovation, entrepreneurship and risk-taking are stifled by a system that has hardly changed for decades.

At the same time, there are growing fears that Germany's famous "dual" system - where students who do not intend to go on to university combine paid on-the-job training with their academic studies in their last three or so years at school - is not adapting fast enough to changes in the workplace and in the world economy.

Helmut Kohl, the chancellor, has for years warned that Germans who move on to higher education are studying for too long, trapped by a long-winded education process which encourages students to put off taking final exams. Roughly 10 per cent of German 29 year olds are still in education. Not only does that mean fewer young graduates entering the job market. It is also a burden on public funds.

At the same time, incompatibilities with other countries' education systems have weakened Germany's attraction to international students.

But Bonn's attempts at reform have faced resistance from within the education system and it struggled to win the necessary agreement of the Länder, or federal states, which have constitutional responsibilities for education.

Under the dual system, typically around two-thirds of young adults leaving secondary school take part in a programme of training, usually for around three years, in jobs ranging from carpentry to banking.

Under the system companies benefited from a healthy supply of well-qualified labour, trained in the skills businesses needed. School-leavers benefited because they gained relevant marketable skills, work experience, and a valuable foot on the company ladder. Companies typically paid around 80 per cent of the annual cost of the system.

However, the system has begun to break down as German companies tighten their belts at home and create most new jobs at cheaper production sites abroad.

Germany's industrial behemoths and the Mittelstand, the country's network of small and medium-sized companies, are wary of taking on apprentices since increasingly they have so few jobs to offer them when the training is over.

Large companies such as Daimler-Benz and Siemens are creating jobs in Germany that require increasingly sophisticated skills in areas such as management or computers. The concern is that the apprenticeship system cannot meet these new demands.

In addition, there are fewer applicants for the apprentice schemes since students have begun to realise they have a better chance of getting a job through other forms of education. In recent years, for the first time more students chose to go to university than to become apprentices.

But in August, a surprise deal was struck between the Länder governments and Jürgen Rüttgers, education and research minister, which offered the prospect of significant changes to the higher education system still modelled largely on the 19th century ideal of "research for research's sake". The agreement led to a new federal bill providing a framework for wide-ranging reform across the country.

The main points include an overhaul of university finances and other regulations to give universities more freedom to increase their competitiveness. There would be measures to reduce the time taken to obtain university qualifications, including encouraging intermediate exams, and US-style "point systems" to allow students to switch between locations and countries as part of their studies.

To increase international compatibility, universities would be allowed to award "bachelor" or "masters" degrees comparable with those in other countries.

The government has also begun to tackle the problems of the apprenticeship system, outlining plans to make training more relevant to modern business and to extend the subjects taught.

There are moves to introduce more apprenticeships in businesses such as information technology, media and other service industries. Politicians have proposed radically cutting the wages apprentices receive to release funds for more training places.

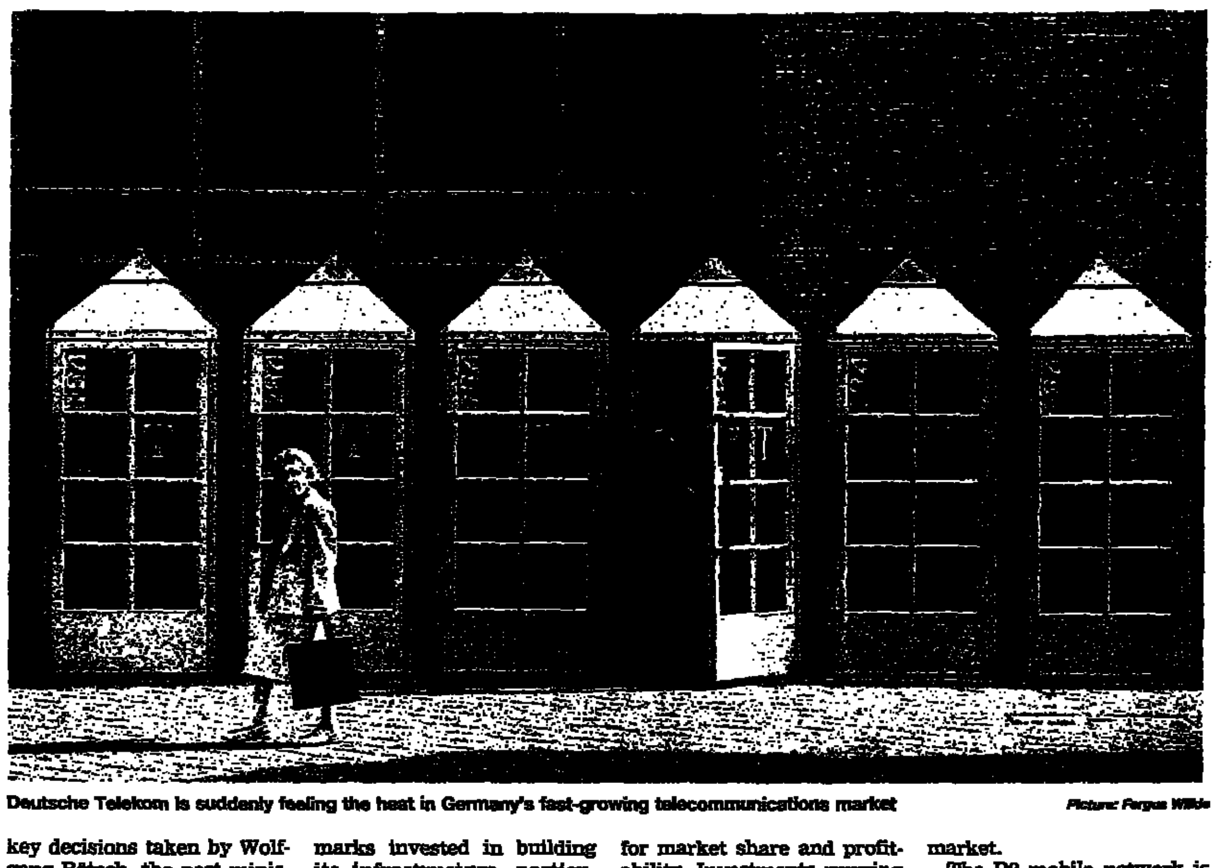
The plans for higher-education reform have been welcomed by university teachers. Professor Dr Jean-Karen Gregory, of Munich's technical university, told Mr Kohl's Christian Democratic Union party conference in Leipzig last month that the new legal proposals "create the possibility for universities to adapt to the needs of the future".

But, there is only so much the new federal legislation can achieve on its own. Reform will depend largely on the state governments and it may require a change of attitude on many university campuses. But, as Prof Gregory remarked, at least "universities will no longer be the popular object of the newspapers' obligatory summer silly season".

TELECOMMUNICATIONS • by Ralph Atkins

Honeymoon appears to be over

As liberalisation nears, companies are lining up to attack Deutsche Telekom's market



Deutsche Telekom is suddenly feeling the heat in Germany's fast-growing telecommunications market Picture: Fergus Wilde

Deutsche Telekom – the partially privatised telecoms group – is suddenly feeling the heat in Germany's fast-growing telecommunications market.

With little more than a month before full liberalisation of the market (in January 1998), two vignettes illustrate how, in telecommunications at least, Germany is becoming accustomed to competition which breaks down traditional monopolies and cosy operating environments.

First, at its half-year results press conference, a clearly-angered Ron Sommer, Deutsche Telekom chairman, lays into Germany's telecoms regulators for setting far tougher than expected rules on the prices it can charge competitors for access to its network. He warns of "far reaching consequences" for Deutsche Telekom.

Then a few weeks later, the head of the group's mobile telephone company resigns – officially for "personal reasons". Unofficially, the talk is of dissatisfaction with T-Mobil's performance against strong competition in the already-liberalised mobile telephone sector.

As the signs of pressure at Deutsche Telekom grow so does confidence that the German market will become truly competitive. The incentive for Deutsche Telekom to boost its efficiency in the domestic market increases its chances of developing globally against increasingly formidable international opponents.

The opening up of the German market has long been planned. But not until almost the eve of liberalisation has it become clear how strong the forces of liberalisation would be.

First, there have been clear signs that the new post and telecommunications regulatory agency, which comes into operation in January, will be no walk-over. Klaus-Dieter Scheurle, a senior civil servant at the Bonn post and telecommunications ministry, was appointed in July to head the new agency promising that he had "the very strong intention to be a very strong regulator".

Mr Scheurle has already been closely involved with key decisions taken by Wolfgang Bötsch, the post minister who has regulatory oversight until the end of the year. Most dramatically, Mr Bötsch set a far lower tariff for "interconnections" to Deutsche Telekom's network than the telecoms group had sought. Mr Bötsch pushed Germany well down the international league table of interconnection charges by setting city tariffs of 1.97 pfennigs per minute at peak times and an average rate of 2.7 pfennigs.

Deutsche Telekom complained that billions of marks invested in building its infrastructure, particularly in eastern Germany, had been "lain to rest with one more or less elegant stroke of the pen". It is challenging the ruling in court.

If the new regulatory authority continues to refuse Deutsche Telekom special favours – and the authority's decisions are upheld in the courts – its competitors should be offered "unbundled access" to its networks which would prove a further powerful impetus to real competition.

"Unbundled access" would provide competitors with access to customers' homes and businesses to offer whatever level of service they wish. They should not have to pay for facilities they do not need.

A second force increasing the prospects for full-blown competition is the strength of the new rivals ranged against Deutsche Telekom. Backed by some of the biggest names in German industry – such as Veba, Viag and RWE, the large energy suppliers, or Mannesmann, the industrial conglomerate – the new alliances are not short of the financial muscle needed for a long fight for market share and profitability. Investments running into tens of billions of D-Marks have been planned.

At o.tel.o – the new telecommunications venture owned jointly by Veba and RWE – prospects have been brightened by the acquisition of a further 30.125 per cent stake in E-Plus, the country's third largest mobile telephone company. With a majority holding of 60.25 per cent in E-Plus, o.tel.o is on a par with other fast-growing telecommunication operations such as Mannesmann Arcor or Viag Intercom in that the possibility of linked fixed-net and mobile telephone operations is open to it.

At the same time, Ulrich Hartmann, chairman of Veba, says the post ministry's ruling on interconnection prices has created a significantly improved outlook for o.tel.o. "The decision certainly removes some of the insecurities. We have always worked with a 'corridor' of figures. Now the figures are the lower end of this corridor."

Similarly at Viag Intercom – the embryonic telecommunications venture owned by Munich-based Viag, British Telecommunications and Telenor of Norway – forecasts have been revised. As a result of the interconnection decision, Viag Interkom now envisages reaching break-even earlier than the original goal of 2001.

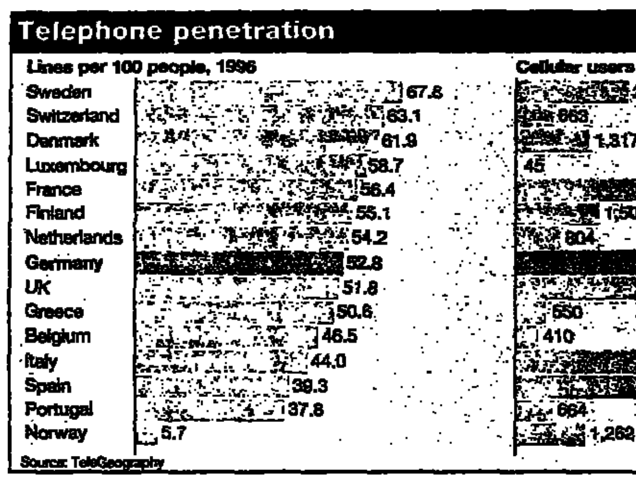
Meanwhile, Mannesmann Arcor – owned by Deutsche Bahn and a consortium led by the Mannesmann conglomerate – is benefiting from its sister company Mannesmann Mobilfunk's dominance of the mobile market.

The D2 mobile network is the largest, with 3m customers. That not only brings benefits such as a healthy cash flow and name recognition. Mannesmann Arcor is looking to exploit technological developments which allow mobile and fixed networks to be merged to provide customers with a single service.

All the signs are that such developments are having a salutary effect on Deutsche Telekom. Certainly the honeymoon which followed its partial privatisation in November 1996 is over. On the day the post ministry announced its interconnection ruling alone, Deutsche Telekom shares fell almost 8 per cent. A defensive mood at its Bonn headquarters has not been helped by the speed of developments in the international telecommunications market, as highlighted by the recent multi-billion dollar bid battle for MCI in the US.

But Mr Sommer, Deutsche Telekom chairman, can point to considerable remaining strengths - not least his group's size and the range of telecommunications, multi-media and information businesses it has under its wing. Staff numbers have been cut, cost-consciousness has increased and improving customer services has been identified as a high priority.

Mr Sommer told the group's half year press conference in September that "we accept the challenge of competition optimistically and in the knowledge that we have prepared ourselves well." It will not be too long before he finds out just how well.



Source: TeleGeography

PROFILE Ulf Bohla

Head is on the line

The long-term aim is to attack Deutsche Telekom on a broad front

The marketing campaign has started. Billions of D-Marks have already been invested. Potential customers have begun calling. From January 1, next year, Ulf Bohla, the 54-year-old chairman of the o.tel.o telecommunications group, will begin to get an idea of whether it has all been worthwhile.

As head of one of the main new competitors to Deutsche Telekom, Mr Bohla will have a lot at stake when Germany's telecommunications market is finally opened to full competition. Backed by Veba and RWE, the financially-strong energy groups, his company is building a nationwide telecommunications network. In all, some DM7bn will have been invested by 2005. Today's more than 3,000 employees will rise to 7,000.

O.tel.o. has experience in the already liberalised corporate telecoms market through inherited businesses. But the long-term aim is to attack Deutsche Telekom on a broad front. "If you are a niche company, Deutsche Telekom can shut your niche," says Mr Bohla. "Concentrate on big business, for instance, and they will adjust their business rates."

O.tel.o expects about a third of its business to come from private clients using the group's services, initially at least, for long distance calls. Another third should come from the "mittelstand", or family-owned small and medium sized companies.

"There is another good reason to go for a high volume. It makes sense when you are building a nationwide telecoms network – although o.tel.o has the advantage of being able to piggy-back fibre optic cables alongside the electricity grid of its parent companies. "It is a huge decision to build a national network. It makes a lot of sense to put through a lot of traffic," says Mr Bohla.

Another sign, says Mr Bohla, of the "deadly seriousness" with which Veba and RWE are taking their entry into mass market telecommunications was the decision during the summer to spend DM3.28bn increasing o.tel.o's stake in E-Plus, the country's third largest mobile phone company. The extra 30.125 per cent gives o.tel.o a majority holding of 60.25 per cent. That increases, significantly, the scope for co-ordinating mobile and fixed line businesses. Not only is the customer base enlarged, it also provides a platform for the eventual development of joint "mobile/fixed network" services under which customers have one telephone number and one bill for a telephone that can be used at home and away.

O.tel.o's prospects have been boosted further by the telecommunication regulators' recent ruling on the charges Deutsche Telekom can levy for access to its networks. Mr Bohla says the decision to set average rates at 2.7 pfennigs a minute was "not as low as we hoped for – but we can live with it".

The plan is to build up o.tel.o's customer base slowly from January 1. "The important thing is to get it right and not to have dissatisfied customers." Nevertheless, o.tel.o. reckons it could be adding several thousand customers a day by March.

A main selling point will be the offer to cut the cost of long-distance calls by 15-20 per cent compared with Deutsche Telekom prices. Mr Bohla – a former vice president for international marketing operations at IBM Corporation in the US – is also putting a heavy emphasis on offering a better service than Deutsche Telekom.

"We know that Deutsche Telekom used to have a quite low level of service. Now they are improving it largely, I think, because we are talking about customer service. We expect we will change the market."

Long-term success – break even is envisaged sometime about 2001 – will depend on overcoming German customers' cautious attitude towards new services or suppliers. But Mr Bohla believes these traditional conservative attitudes are changing. "As lots of Germans are travelling to the US, they are getting used to liberalisation at home."

Ralph Atkins

CHEMICALS INDUSTRY • by Graham Bowley in Frankfurt

Big three on different paths

The companies are successful in terms of scale but are lagging on returns on capital

The wisdom of unbundling versus that of remaining a diversified conglomerate is being played out in dramatic fashion in Germany's chemical and pharmaceutical industry, the country's second biggest industry.

Germany's big three chemical and drugs groups are following very different strategies to bring them success in the world's volatile and increasingly competitive chemicals business.

Bayer has decided to keep both a large drugs and a chemicals business in a bid to become the world's leading integrated chemicals group. Meanwhile, BASF is pursuing its unique "verbund" or total integration strategy, retaining as one single business its main chemicals activities and its oil and gas and life sciences divisions. It is also looking more and more to Asia for growth. Hoechst, on the other hands, has transformed itself radically and wants to focus solely on life sciences, which means just pharmaceuticals and agrichemicals.

BASF, Bayer and Hoechst were all part of IG Farben, the former German chemicals conglomerate which became notorious because of its link with the National Socialist regime before and during the second world war. Built around vast sites, they grew into sprawling business empires with activities in many different areas which provided jobs for life. They shed very few businesses and offered little financial transparency.

Times have changed since then and they are no longer the great conglomerates of the past. They have all restructured and become more focused. There has been a marked shift from an emphasis on volumes of sales and output – a view which was predominant until the end of the 1980s – to the current focus on improvement of profitability and shareholder value. The industry has also been one of the quickest to secure greater working flexibility among its labour force, striking a landmark deal this year with the IG Chemie, the progressive chemical workers union, which protects jobs in return for large cost savings.

There has also been a reduced dependency on the domestic German economy. For most of Germany's chemical companies, Europe is still the main market. However, the US has increased a lot in importance, and several, such as BASF, are turning their attention to Asia in a big way.

In addition, there has been a general shift – most marked in the case of Hoechst – away from basic chemicals to speciality products which command higher margins and often enjoy patent protection.

Hoechst has been the most radical reformer. Its transformation has been one of the most drastic restructurings in German post-war history. Units have been sold, shut down, or spun off into joint ventures, and Hoechst itself has become a holding company for what are now several independent business divisions. Its guiding principle has been to get out of the chemicals business where it has been difficult to make returns because of high labour, power and raw material costs in Europe. In its bid to boost shareholder value, it has listed its shares on the New York stock exchange – one of only a handful of German companies to do so – to increase its exposure to the world's largest capital market and make it easier for US investors to buy Hoechst shares.

The transition has not been easy – Hoechst jolted the market in March when it reversed a decision to take its drug unit HMR public as a separate entity, confusing investors and sending Hoechst shares sharply lower.

The restructuring has also caused confusion in its financial reporting – Hoechst shares were buffeted again in August when it reported a large drop in profits. Management said the reorganisation distorted the figures but they concede they have to be careful in communicating this in the future.

"It is going to take several years until the success of Hoechst's strategy is proven," says Peter Blair, an analyst at Salomon Brothers in London.

In sharp contrast to Hoechst, Bayer – traditionally the most successful of Germany's chemicals giants – has stoutly defended the virtues of being both a chemicals and a pharmaceuticals conglomerate. It believes in a healthy cross-fertilisation between the two areas. The structure allows the liquidity generated by chemicals to be invested in the growth of the life sciences business. In addition, its larger pharmaceuticals arm has meant Bayer has traditionally been less vulnerable to the business cycle than BASF or Hoechst.

"It started from a better position than the other two and there has therefore been less urgency in its restructuring and repositioning, although Bayer is now setting itself aggressive targets," said Mr Blair. The test for Bayer in the next few years will largely revolve around the success of the launch of a range of new medical products.

BASF has won praise for its reorganisation. Analysts think that BASF has improved its longer-term earnings potential by strategic moves, for example by increasing its presence in natural gas distribution and in pharmaceuticals and the sale of its loss-making magnetic tapes business.

"The structure of the BASF group has improved considerably over the last few years. Weak points were rigorously eliminated. At the same time, the group has become more resilient to cyclical trends as a result of investments in stable business areas," according to analysts at Bank Julius Bäer in Frankfurt.

An integral part of BASF's strategy has been its plans to invest several billions of D-Marks in giant chemical complexes in Malaysia and India. This will sit alongside its planned DM6bn chemicals complex joint venture in China, by far the largest in the country.

That level of investment, which represents a sharp change of direction for BASF, holds both promise for very strong growth but also huge risks, as demonstrated by the recent turmoil in Asian financial markets.

The different strategies pursued by the chemical groups have not yet been put properly to the test and it is not known which will in the end prove to be the most successful.

BANKING • by Andrew Fisher

Shake-up sharpens focus

The euro will speed up changes and provide considerable opportunities

The head of Dresdner Bank recently predicted further wide-ranging changes on the German banking scene, but such is the speed at which these are occurring that he will not be there to see most of them.

Germany's second biggest bank has been undergoing its own upheavals, one result of which is that Jürgen Sarrazin will step down in May – earlier than expected – so that the bank can present a more dynamic image in an increasingly hectic and volatile environment.

Not that Dresdner is unsuccessful. Its operating profits were 25 per cent higher in the first nine months and it has been pushing deeper into activities such as asset management and investment banking at a time when traditional lending often brings more problems than rewards.

Like other German banks, Dresdner is facing the challenges of increasing consolidation in the industry, especially ahead of European economic and monetary union. With corporate and retail clients becoming more choosy and less loyal as they seek the best returns and service, banks are trying to cut costs, improve their products and present a sharper profile.

Hence the highly publicised changes at Dresdner, where the somewhat aloof Mr Sarrazin was deemed to have been too reticent in putting across the bank's strategy. Ironically, the man who played a strong part in manoeuvring Mr Sarrazin out of the picture is himself under a cloud.

Not long after the news that Mr Sarrazin was to be succeeded by Bernhard Walter, a fellow director, came the surprise resignation of former chairman Wolfgang Röller as head of the supervisory board after allegations of tax evasion. A further blow came when Hans-Günther Adenauer, another director, also stepped down over his personal tax affairs.

In the wake of these setbacks, reports of management disarray have been rife. But behind the personal conflicts lie a series of strategic issues at the centre of German banking. A shake-up in the sector had been forecast in recent years, but it took a long time coming.

Finally, Deutsche Bank, the country's biggest bank, produced a bombshell with its surprise 5 per cent stake in Bayerische Vereinsbank, the big Bavarian bank, in summer of last year.

That unleashed a spate of speculation about possible tie-ups, alliances and mergers. But for some time nothing seemed to be happening. Behind the scenes, though, there was plenty going on. The heads of all the big banks spoke with each other, notably Vereinsbank with Commerzbank and Dresdner with Bayerische Hypotheken- und Wechsel-Bank, also based in Bavaria.

In the end, Deutsche was left on the sidelines when Vereinsbank and Hypo-Bank decided to take matters into

> Banks are facing the challenges of consolidation in the industry

their own hands this summer and merge. The result, to be called Bayerische Hypo- und Vereinsbank, will be Germany's second biggest bank, displacing Dresdner. A merger between Berliner Bankgesellschaft and Norddeutsche Landesbank is also being discussed. Such a deal would edge Dresdner even further down the league.

As consolidation in lending markets continues, further extensive changes are foreseen across the variegated banking scene. These are likely to encompass mortgage banks – an area in which the merged Bavarian bank and Dresdner are strong – public sector and savings banks, co-operative banks and private banks.

Rolf Breuer: sees opportunities in asset management

The coming of the euro will clearly speed up the shifts in the industry. Big banks are spending large sums to prepare for Emu which they see as offering considerable opportunities.

Emu will produce radical changes in the capital markets as securities are traded in one currency in member countries. It will also intensify corporate restructuring, providing more business for banks on the advisory and financing side.

With the disappearance of national currencies, individuals will be seeking new investment horizons. Equities are expected to be more in demand as governments bring their budgets under control and make fewer bond issues.

Strains on state pension and social security systems are alerting people to the need to make more private provision. Bankers such as Rolf Breuer, head of Deutsche Bank, thus see wider business opportunities opening up in asset management, an area which big banks are targetting increasingly worldwide.

But as banks and financial services companies move deeper into the market, distribution will become more important, he says. "For a producer of financial services, production is not as profitable as before," he believes. "There is no patent protection that banks can adopt." The emphasis has thus moved to distribution.

But there is a limit to the number of distribution networks a market can contain. So banks wanting to expand within Europe will have to buy existing networks rather than setting up new ones. Mr Breuer has already raised that possibility for Deutsche Bank in the French market where it is under-represented. "You need a Europe-wide network if you want to be active in the euro sphere," he says.

Insurance companies are also becoming more active in the asset management field, heightening speculation about closer links between insurers and banks in what is called bancassurance or Allfinanz.

Since Allianz, the big German insurance group, owns 22 per cent of Dresdner Bank, the possibility of an amalgamation has often been mooted. Both, however, have made clear that their planned co-operation in asset management and property finance will be restricted to those activities.

Clearly, that does not exclude later links, possibly also involving others since Allianz owns 22 per cent of Hypo-Bank. But the Bavarian banks will be fully occupied implementing their merger in the next few years. Moreover, Dresdner intends to maintain its independence, as Mr Sarrazin asserted when presenting the latest results.

The independence of Commerzbank has also been called into question recently – its name has been linked with several foreign banks. Although the bank has been turning in healthy profits this year – as have its main domestic rivals – there are doubts over its strategy and future direction.

The next few years, therefore, promise to be a stimulating time for observers of the German banking scene, with plenty of uncertainties as well as opportunities for the banks themselves.

CAR INDUSTRY • by Graham Bowley in Frankfurt

On the road to recovery

New products have helped carmakers to drive further into foreign markets

A small car tipping over during high-speed tests on a Swedish test track may have been one of the defining moments for the German car industry in 1997. The incident involving Mercedes-Benz's new A-Class, just weeks after it went on general sale, brought down a wave of criticism on Mercedes. It has damaged the launch of a car which marked the company's first foray into the smaller vehicle market and threatens to taint the safety reputation of other models.

Ironically, the embarrassing setback came at the end of a dazzling year of growth for Daimler-Benz and for Germany's other car manufacturers. Through a heady cocktail of new products, more efficient production techniques and with the help of a weaker D-Mark, the German car industry has been able to shake off stagnant domestic demand to increase sales rapidly in foreign markets.

The success of the car industry – one of Germany's biggest, which accounts for a large proportion of the country's exports – has played a big role in the gentle recovery in the German economy this year.

"The car industry in Germany is doing very well, better than carmakers in other countries," said Rolla Kautz, automobile analyst at BHF-Bank in Frankfurt.

The industry's success this year is rooted in the sharp downturn in the German car market in 1993 which followed the earlier unsustainable boom after German reunification.

That painful downturn – along with especially hard setbacks against Japanese competitors in particular – forced Germany's car manufacturers to embark on a period of hectic innovation which led to the creation of several highly successful new models. VW and its luxury car division Audi were spurred to produce new vehicles – which have driven Audi's impressive revival and the success of VW's Seat and Skoda ranges and which resulted in this year's launch of the long-awaited new Golf. VW's new Beetle is to be launched next year.

This success and the high expectations for the industry were reflected in the razzmatazz surrounding the launch of Mercedes' new M-Class sports utility vehicle at Daimler's new plant in Alabama in the US.

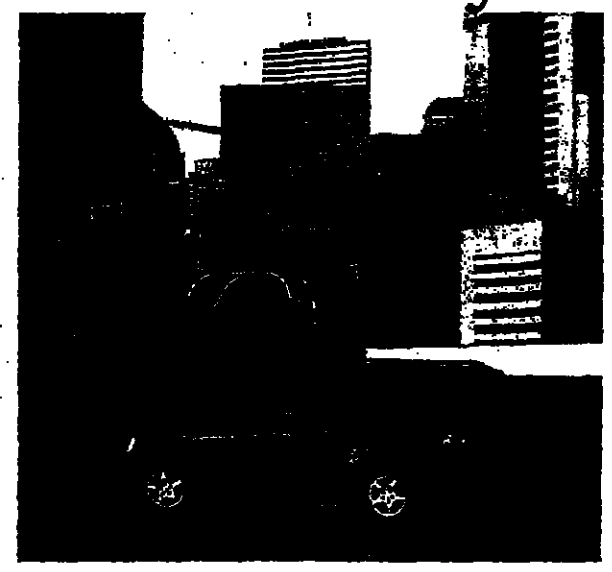
This has been an important year for Mercedes. It began to develop fully a new, wider car range; the M-Class is Mercedes' first US-built vehicle and is designed to spearhead its push into the lucrative sports utility market.

Daimler-Benz, which has benefited from a turnround this year in its European truck division after several years of losses, has also entered the very small car market with its Smart car joint venture. Recent safety worries aside, Mercedes was also praised for the innovations in its A-Class, which includes a special chassis designed to guide the engine underneath the passenger compartment in the event of a collision.

"It was a good year for the industry, a year of new products and some market share gains. For all of them the US and Japan have turned out to be quite positive, the US in particular," said John Lawson, car analyst at Salomon Brothers in London. "Daimler-Benz were tremendously successful and got growth going in the car business."

But arguably the most successful carmaker has been Porsche, with reports of strong demand and long order backlogs. Its Boxster model has proved popular and it is launching a new 911 model.

BMW, perhaps the company which was least affected by the downturn earlier this decade, has been criticised for lack of new models, despite the runaway success of its Z3 sports car



Mercedes M-Class: spearheads push into sports utility market

which is made in the US. But the Bavarian company has responded by pledging to step up innovation and plans to launch a new 3 series next year.

BMW is still in transition as it attempts to integrate Rover, the UK car company it bought in 1994. The sharp appreciation of the British pound and the link with Rover has meant BMW has not enjoyed the same exchange rate bonus that other German exporters have.

The one large shadow on the industry is cast over Opel, the German subsidiary of General Motors of the US. Opel, which as Germany's other volume carmaker is locked in fierce rivalry with VW, has been beset by concerns about declining quality and the delay in the launch of its new Astra model.

There are worries that Opel has lost its way in Europe as GM's strategy has been directed increasingly towards global expansion. Opel has not been helped by reports of upheaval in its top management. David Herman, chairman, has come under pressure from GM to improve Opel's declining market share, and there are reports that he could be moved before the end of his current five-year contract.

"Opel has been forced into a role where it is influenced by factors outside Europe a lot more than in the past, but ultimately that will be a strength for the company," said Mr Lawson.

The Astra – which traditionally accounts for the largest slice of Opel sales – is due to be relaunched early next year and should pose a threat to VW's new Golf.

A key ingredient of the German carmakers' success has been the improvements in efficiency and working flexibility many have made. Opel was among the first to improve the management of its manufacturing processes. It has since been caught up by companies such as VW, which this year introduced a new early retirement arrangement. VW has also streamlined its operations by reducing sharply the number of basic platforms, or undercarriages, used among its four brands.

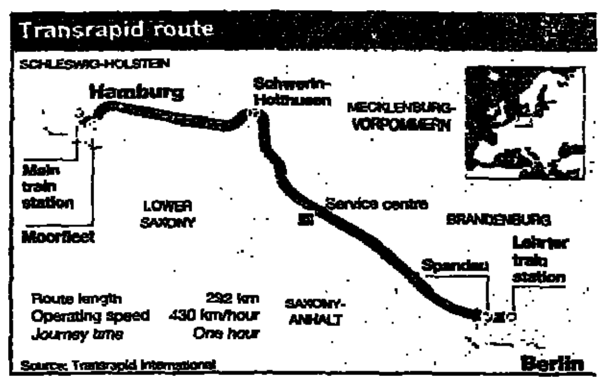
Daimler-Benz has cut large portions of its workforce, and has shifted production outside Germany. Companies have moved to more flexible working shifts, including Saturday working when demand is high, and have made inroads into wage costs.

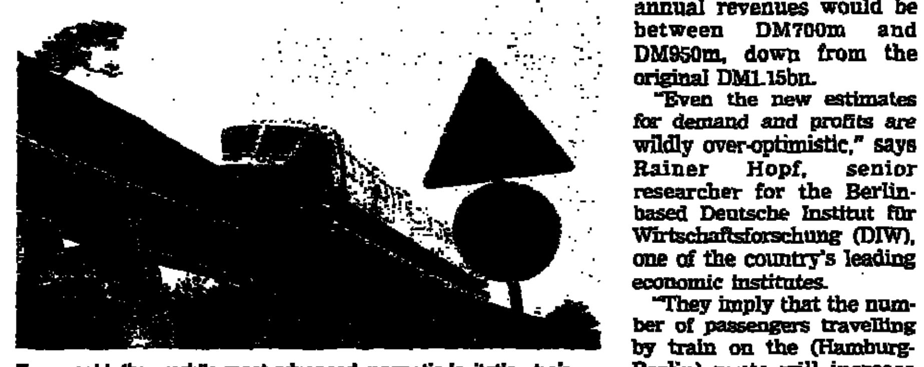
However, the accident with the A-Class was an abrupt demonstration that the advantage German manufacturers have gained through their new models is not necessarily assured.

TRANSRAPID • by Sarah Althaus in Frankfurt

Whispering Arrow on track to reality

Bonn is backing a DM9.8bn project to use magnetic levitation for a rapid rail link




Transrapid, the world's most advanced magnetic levitation train

Travel through the flat expanse of Emsland in north-west Germany and you might feel you have been beamed into an episode of Star Trek. Along a huge, elevated concrete track, at regular intervals, a 90-tonne vehicle known as the Whispering Arrow flashes by with the help of magnetic forces.

But this is reality – the test site of the Transrapid, the world's most advanced magnetic levitation train. After more than 10 years of tests, its backers, comprising the German government and some of the country's biggest engineering companies, are determined to let nothing derail the project.

This year, Bonn shrugged off fierce resistance from opposition parties and environmentalists and approved a 292km, DM9.8bn Transrapid link between Hamburg and Berlin, Germany's biggest cities. Construction is set to begin in 1999 and operations in mid-2005.

Despite a 10 per cent increase in the forecast cost of the project and the dire state of the federal finances, it agreed to shoulder most of the costs.

The government will pay the estimated DM6.1bn for the construction of the tracks, while the remaining DM3.7bn for the rail cars and the electrical systems will be met by a consortium comprising Siemens, the electrical and electronics group, Thyssen, the engineering company, Deutsche Bahn, the state-owned railways operator, and Adtranz, the joint venture between Daimler-Benz and ABB, the Swiss-Swedish group.

Manfred Wackers, chairman of Transrapid International, the marketing group owned by the consortium, is triumphant: "This is a prestige technology project . . . and one of Germany's largest public and private sector initiatives."

"It also holds great export potential," he adds, citing interest from the US government for a high-speed railway between Los Angeles and Las Vegas, as well from Australia for a link between Sydney and Canberra. "And that is just the beginning."

The technology, developed by Thyssen Henschel, is certainly impressive: propelled by electrically-generated magnetic fields, the Transrapid glides on a cushion of air about 10mm above the runway and picks up speed proportional to the increase in the electric current.

The train has no wheels but clutches a concrete guideway rather like a runner on a curtain rail. "Virtually nothing can derail it," boasts the promotional video.

Travelling at up to 450kph, it is expected to cut the train journey from Hamburg to Berlin to just under an hour from about two and a half hours. With tickets expected to cost less than the airfare for the same route, the consortium forecasts up to 15m passengers will use the train each year.

In addition, tests have shown that, at speeds of about 300kph, the vehicle uses less energy and is quieter than the German Inter-City Express (Ice) or France's Train à Grande Vitesse (TGV), the two high-speed trains which are its main competitors.

But not everybody is enthusiastic. Opposition parties believe there will be insufficient demand for the German link and that it does not justify the large amounts of public funds being spent on it.

Indeed, the case for the Transrapid was not helped this year when the consortium was forced to admit that the project would cost 10 per cent more than the DM8.9bn forecast, and that annual revenues would be between DM700m and DM950m, down from the original DM1.15bn.

"Even the new estimates for demand and profits are wildly over-optimistic," says Rainer Hopf, senior researcher for the Berlin-based Deutsche Institut für Wirtschaftsforschung (DIW), one of the country's leading economic institutes.

"They imply that the number of passengers travelling by train on the (Hamburg-Berlin) route will increase by eight to 10 times within a short period of time."

Werner Rothengatter, professor at the University of Karlsruhe and a member of the federal economic committee, agrees. "The Transrapid is too expensive in its current form . . . it would be better to develop the technology further so that it could be used along existing rail tracks."

Manfred Wackers, however, is unmoved. "All this criticism at home is just typical of Germany's anti-risk, anti-high tech mentality . . . If we dawdle much longer we will be caught up by the Japanese, whose maglev technology is only about five to seven years behind ours."

ENGINEERING • by Sarah Althaus

Engine roars back into life

While the sector looks set for a sustained recovery there are still problems

The gloom that has afflicted the German engineering industry for the past few years is gradually lifting.

And that is not just good news for the sector's 5,000 or so companies, but for Germany as a whole. For with annual sales of about DM230bn and almost 1m employees, the industry is one of the most powerful drivers of the country's economy.

Germany's engineering sector – the biggest in Europe and the third largest globally after Japan and the US in sales – has been suffering from remorseless cost pressures and rising competition from Japan and east Asia. In 1993, it slid into the worst recession since the second world war, and insolvencies have since reached record levels.

Yet, after a modest 1 per cent increase in production last year, VDMA, the German plant and machinery association, forecasts output will rise by at least 3 per cent this year and 5 per cent in 1998, mainly due to strong foreign demand. The sector looks set for a sustained recovery, it says.

But problems remain: domestic demand is slack, orders are still way below the levels of the post-reunification boom, and structural problems continue to beset the Mittelstand, the myriad of family-owned, small- to medium-sized companies that contribute about three-quarters of German engineering output.

But, overall, "the trend in orders and production is upwards", according to Herbert Kriegbaum, head of business trends and statistics at VDMA.

A steady rise in the monthly business confidence index for the sector, compiled by Ifo, the economic research institute, underscores this view.

Heavy restructuring in the sector - which has led to the loss of about 230,000 jobs since 1990 - and the gradual recovery of the west European economy, the German engineering industry's main market, are among the main engines of the turnround.

In addition, competitive pressures have eased somewhat due to moderate wage settlements and the weaker D-Mark..

The Mittelstand has also undertaken measures to slash costs. In response to high wages at home, companies are increasingly contracting out the production of non-core, relatively unsophisticated components to low-cost suppliers abroad.

A recent VDMA study showed that German imports of engineering components from eastern Europe totalled DM1.7bn in 1995, up 41 per cent from 1994's DM1.2bn. In 1990, the figure was close to zero.

"A structural change is taking place," Mr Kriegbaum says, but he admits problems with the quality of foreign supplies has so far prevented a more pronounced increase in imports.

The Mittelstand has also begun to adapt to the increasing globalisation of the sector by shifting its sales focus from the traditional west European market to north and south America and Asia.

Companies have also been attempting to build on their reputation for technical excellence and innovation by moving into even more design-intensive fields which they hope competitors will find hard to emulate..

For example, Prominent, the world's biggest maker of specialist metering pumps, is looking to adapt its equipment to feed special odours into air-conditioning in supermarkets. Another company, Putzmeister, is developing sophisticated "robot cleaners" costing about DM5m each to clean jumbo jets while they are parked on the airport tarmac.

However, some analysts say the sector needs to go further to maintain its global position. Claus Garbe, a partner at Roland Berger & Partner, the Munich-based management consultancy, says "the Mittelstand needs to work more on getting the design right and linking service and price levels closer to customer needs."

"Products are often over-engineered and geared towards incredibly high German standards which customers, particularly in places like China, do not always require and are increasingly unwilling to pay for."

Olaf Thölke, an engineering analyst at Merrill Lynch, the US investment bank, says there are still too many groups making similar products, and that more mergers are necessary.

"The whole face of German engineering is changing: the trend is towards bigger units...only those Mittelstand companies which have secured a niche market for themselves will be able to survive on their own," he says.

Industry observers say the Mittelstand could seek further economies by pooling resources in areas such as research and purchasing.

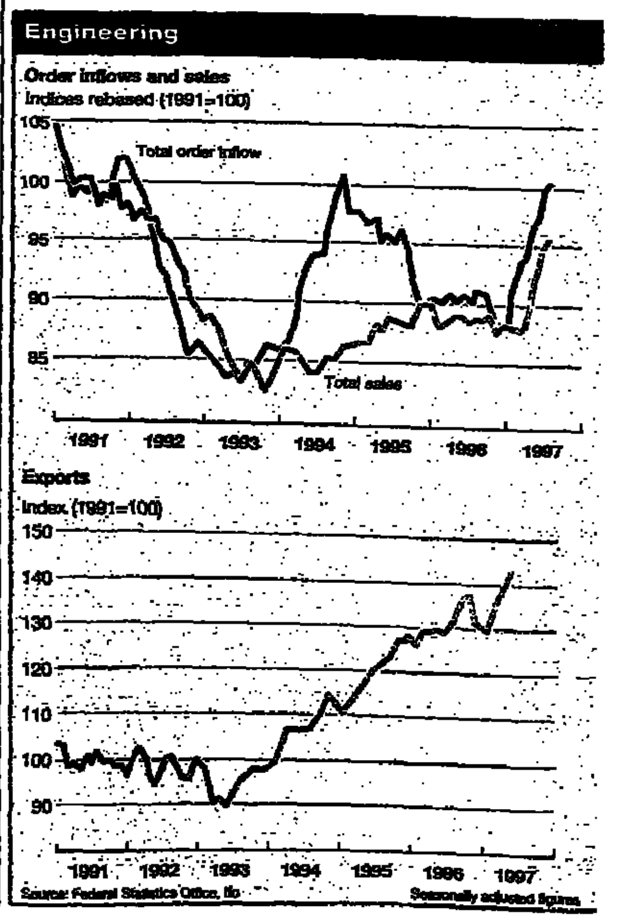
However, such co-operation could prove difficult. Typically owned and run by authoritarian-minded figures who are often members of the founding family, Mittelstand companies guard their niche fiercely.

"Mittelständer like to keep their cards close to their chest and are often afraid of having to divulge any operating "secrets" if they work together with another group," says Mr Kriegbaum.

Mr Kriegbaum adds that family rifts or personality clashes between owners of rival Mittelstand companies sometimes prevent closer co-operation.

He cites the example of the now bankrupt Deckel Maho, which, despite financial problems at the time, set up in Singapore at around the same time as its much stronger rival Trumpf. "It begs the question why they did not link up".

Nevertheless, Mr Kriegbaum is confident for the sector. "The Mittelstand has been pronounced dead many times before . . . but overall, its strength remains undisputed."



MEDIA • by Frederick Stüdemann

Clearer picture emerges

Commercial broadcasting has adopted 'a more professional approach'

The big decisions in the German television industry have a habit of being taken outside the country.

Last year the script was written in Hollywood as Bertelsmann and Kirch Group, Germany's biggest commercial broadcasting groups, fought to secure popular US films and programming. That battle was won by Kirch which bought the rights to the bulk of Hollywood output for DF-1, its digital pay-tv venture, thereby scuppering Bertelsmann's plans.

But the costs of victory – an estimated $6.2bn in commitments to the studios – were exorbitant and contributed to DF-1's failure to take off which, in turn, sparked a financial crisis at privately-held Kirch.

Under pressure Kirch made a truce with CLT-Ufa, the Luxembourg-based broadcaster in which Bertelsmann has a 40 per cent stake. Rather than compete, both plan to work together to develop digital pay-TV around the existing analogue (non-digital) subscription channel, Premiere.

If that venture, in which both companies plan to invest a total of DM2.5bn over the next four years, goes ahead then the emerging market of digital pay-TV – about which so much has been written and promised – may finally take off. But before that happens the two companies will once again have to await a decision from outside Germany, namely in Brussels in the office of Karel Van Miert, the European Union's competition commissioner.

The case promises to be an interesting one. Alongside the proposed link-up of the two biggest participants in programming and broadcasting, Kirch and CLT-Ufa also want to set up a joint-venture with Deutsche Telekom, the partially-privatised telecoms company, to establish a technological platform for distributing digital TV.

Three years ago Brussels ruled against a similar proposal made by the three companies. This time, the companies say, they have created an "open platform" which any would-be competitor can use. A decision is expected next year.

While millions of D-Marks are being spent on persuading the European Commission of the importance of an elephantine marriage to open a new market, traditional analogue free-TV, which is funded by advertising, can easily be forgotten. Developments in this sector, in which CLT-Ufa and Kirch also hold significant positions, have also been dramatic.

In July, the third biggest free-TV network, Pro Sieben, went to the market in the first initial public offering by a German television company. The issue of 17.5m non-voting shares raised more than DM1bn, much of which went to Thomas Kirch, son of the founder and owner of Kirch Group.

The decision to go public was in part originally prompted by fears that German media authorities would strip Pro Sieben of its licence on the grounds that Kirch Group, whether through father or son, controlled too many stations.

Georg Kofler, Pro Sieben's chief executive, has tried to make a virtue of the decision by saying that the IPO had subjected the company to "greater discipline" and that it would mean increased profits and returns.

Other networks have discovered such virtues without going public. SAT-1, the second-biggest commercial network, appears to have halted years of decline and losses by introducing practices better known in other sectors.

Arno Waschkau, the company's chief financial officer, says SAT-1 has implemented more stringent levels of return on investment. The aim is to increase the speed with which the financial outlay for programming is recouped.

Dieter Hahn, managing director of the Kirch Group which owns 43 per cent of SAT-1, says this indicates that German commercial broadcasting, which is just over a decade old, is moving out of its pioneering stage and becoming more professional.

A further sign of fundamental change could be the disappearance of several small participants from the commercial broadcasting market.

Moves towards consolidation are already under way. CLT-Ufa, which owns the biggest commercial channel, RTL, is negotiating with fellow shareholders in three smaller channels with the aim of creating a "broadcasting family".

INTERVIEW Gerhard Cromme

Reformer not a revolutionary

Peter Norman finds industry's enfant terrible optimistic about the future

Gerhard Cromme, chief executive of the Krupp steel and engineering group, is the "enfant terrible" of German industry.

The youthful looking 54-year-old manager shocked German industrialists and politicians earlier this year when he tried to launch a hostile, debt-financed bid for the larger Thyssen group. Back in 1992, he established his reputation as one of Germany's most aggressive business leaders when he won control of the rival Hoesch group in one of the nation's first, and biggest, hostile takeovers.

When Mr Cromme's plan to acquire Thyssen became known, he was accused of "wild west" tactics and of subordinating Germany's industrial culture of consensus to the alien Anglo-Saxon concept of shareholder value. The bid was aborted, partly because of the political storm it generated. Shortly afterwards, Krupp and Thyssen pooled their flat steel interests. Earlier this month, the two groups reached agreement in principle on a full merger.

These events, unfolding in eight months, say a lot about how Germany is adapting to the challenges of intensified global competition and the approaching euro. Initial political obstruction quickly gave way to encouragement for the steel merger. Mr Cromme, originally pilloried as a ruthless profit maximiser, showed that he could compromise and achieve change in the framework of Germany's business environment.

Mr Cromme considers himself an Anglo-Saxon type of manager. But interviewed in Krupp's unostentatious Essen headquarters, he emerges as more of a reformer than a revolutionary. "Germany as a business location is not as bad as people say. But it is not as good as it should be," he begins.

"Germany has many strengths: for example, political stability; the high level of education; peoples' willingness to work; their talent for organisation. But the burdens imposed on German companies and the working population through taxes and charges have become too great. We need more freedom for individuals to decide what they do with their money and less state regulation, one might almost say state tutelage. It would be a huge relief if we achieved that. German industry, which has already changed enormously, would certainly experience a very rapid and spectacular improvement and solve its remaining problems."

The government "can see what is wrong; the analysis is correct". Its priority should be to cut taxes and state activities.

For years, the state in Germany has been too active as a distributor of money. "The share of public outlays in gross domestic product, at present more than 50 per cent, must be cut to 45 per cent as quickly as possible and then more slowly towards 40 per cent."

Germany's failure to reform is a problem of "political will" and a federal constitution that is far more complex than in most other countries. But, he insists, it is easy to "get a false impression in Bonn that everything is blocked.

"Much is changing in Germany. We in German industry, we German managers, we are doing our homework," he says. "I believe that in recent years German industry has understood the problems of globalisation and is in a process of change. Obviously things can always be better. But I believe industry is adapting at a sufficient speed."

Gerhard Cromme: showed that he could compromise

Nor, despite his experience earlier this year, is political interference in business a real problem. "There is less than in most other countries. The Thyssen Krupp case was an exception."

One reason for the furore over the bid for Thyssen was the apparent subordination of social and regional priorities to the interests of shareholders. Mr Cromme is unrepentant in his advocacy of shareholder value. "I believe shareholders who make money available to us have a right to be paid fairly either through dividends or the growth in their investment. But I have to say, and this is with the shareholders' interests in mind, I don't think a short-term view of shareholder value is right for the company. You have to look at things in terms of what the shareholder gains over three to five years, not quarter by quarter."

He casts a similarly measured eye over the German tradition of consensus in industry between employers and employees which "in the final analysis seeks compromises that always take longer and which are rather more expensive". On the other hand, "there are no upheavals as there have been in France or the UK".

And Mr Cromme is "firmly convinced that the consensus system can survive with small changes". The trade unions, he believes, will realise it is in their interests "to create working conditions in Germany in which the highest possible number of trade unionists can work.

"There will probably have to be some adjustment to the influence of capital and employees. Germany cannot afford to keep some of the specially cherished aspects of the area-wide collective agreements that are of such importance to the trade unions and the employers federations," he warns. "We have to consider that the German worker with his high wage and fringe benefit costs faces ever more international competition and that will be emphasised when the euro comes."

Nonetheless, the European Union's planned single currency will be "a real opportunity, not a danger".

"I, personally, and my colleagues in German industry, generally, are unconditional backers of the euro," he declares. "How can you have a long-term investment policy in a single market without a single currency?"

There are other potential advantages. "It will be good for industry if it is represented by a powerful European institution that can stand up to the Americans rather than by numerous individual states that all have different interests and which fall out of a joint phalanx through all sorts of trade offs," he argues.

"The euro will also make a decisive contribution to ensuring that Europe as a whole, and Germany in particular, is more competitive," he believes.

"The reason is that we will obtain a transparency in Europe that will apply not just to wage and fringe benefit costs but also to energy costs, tram fares, tax systems, everything.

"This transparency will mean that the populations in the various countries will no longer accept that the state demands more from the citizens of one country than from another." It will mean that all costs, such as energy or wage costs, will converge.

Mr Cromme is "fundamentally optimistic for the future of Germany as a part of Europe".

But he belies his "wild west" image by seeing the route to that future as taking "a middle way with a different approach from the Anglo-Saxon way".

PROFILE Thomas Middelhoff

Online and on top

German media group heads for the expanding world of cyberspace

Like many German business executives Thomas Middelhoff precedes his name with the title of doctor. But unlike others, Mr Middelhoff, chairman designate of the media group Bertelsmann, has been able to put his doctoral studies – on online services – to practical purpose.

In 1995, Mr Middelhoff took Bertelsmann into his field of study when the company took a 5 per cent stake in America Online and a 50 per cent stake in AOL Europe, the US company's European off-shoot. The action moved Bertelsmann, the world's third-biggest media group, into one the industry's newest and most promising sectors, and the AOL deal indicated the company's future direction.

In three years the group hopes its new media activities, for which Mr Middelhoff was responsible until his appointment as successor to outgoing chairman Mark Wössner will make profits of DM100m (£34.80m) on sales of DM2bn-DM3bn.

For the company this will represent a profound shift from its traditional printing, publishing and book club businesses which account for the bulk of

Thomas Middelhoff: in the US improving his English

sales and profits. Bertelsmann had profits of DM400m on sales of DM22.4bn in the 1996-97 fiscal year. Mr Middelhoff's appointment is as much an indication of generational change within Bertelsmann as it is a sign of a fundamental shift in strategy.

Mr Middelhoff began his career at Bertelsmann in the printing division. He was put in charge of turning around a loss-making subsidiary in Berlin.

The son of a textile manufacturer, Mr Middelhoff, a father of five, grew up in eastern Westfalia, near Gütersloh, where Bertelsmann is located. Such regional and commercial roots count for much with Reinhard Mohn, holder of the majority of Bertelsmann's voting stock and a descendant of the founder.

Despite Bertelsmann's growing internationalisation – two-thirds of sales are now outside Germany – the company will keep its headquarters in Gütersloh.

Over the next few months, however, Mr Middelhoff will be in the US improving his English language skills, as well as getting to know the group's businesses there. He says he may also take the time to study potential rivals – such as Microsoft.

New York is the formal base for Bertelsmann's entertainment division, which is the group's music, film and television activities. The division includes a 40 per cent stake in CLT-Ufa, Europe's biggest broadcasting company, which is presently seeking to consolidate its position within the German market. Top of the 'to do' list is the successful introduction of digital pay-TV together with the rival Kirch Group.

Mr Middelhoff sees possibilities in the US for expansion. However, he dismisses speculation that Bertelsmann wants to buy a Hollywood studio. He says US acquisitions will be in its core book publishing area.

While this might contradict Bertelsmann's ambition of moving into new areas – online services, internet telephony and digital television – it is an indication of the on-going importance of traditional activities, not least of which is to fund expansion.

FS

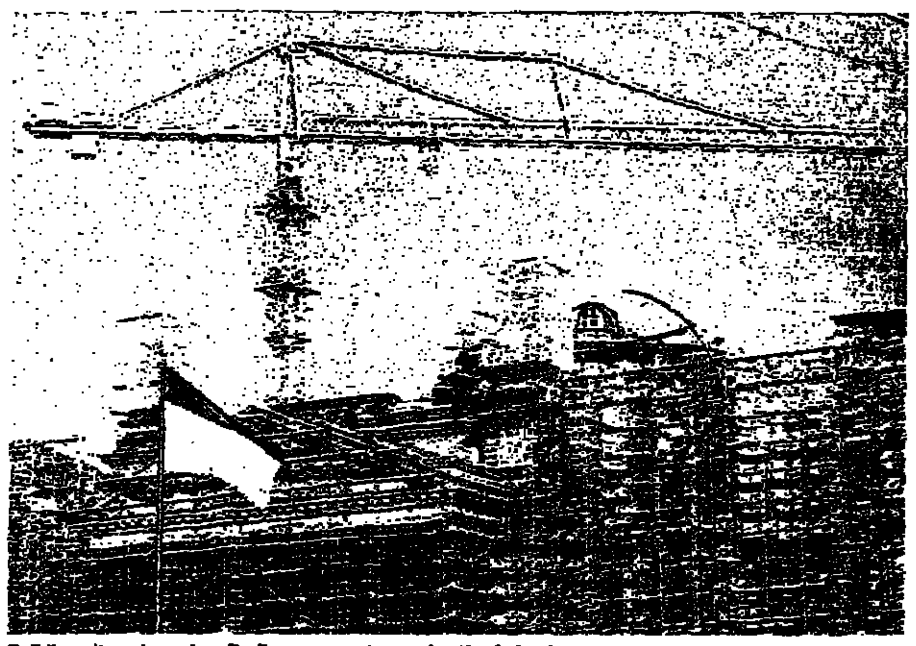
BERLIN • by Frederick Stüdemann

A painful transformation

The federal government's arrival will be a much-needed boost for the city

It is not hard to write down Berlin. As it awaits the arrival of the federal government from Bonn in summer 1999, the German capital is in a mess. The city is cluttered with building sites and its finances are in a parlous state, prompting the city government, the Senate, to sell assets and make painful cuts in services.

Unemployment is high and those the city needs to retain – young couples with good jobs – are increasingly leaving Berlin for the greener and cheaper charms of the surrounding state of Brandenburg.



Building sites abound as Berlin prepares to receive the federal government Picture: Fergus Wilde

Those west Berliners who have stayed and who, until recently, enjoyed generous tax breaks and subsidies from Bonn on account of the city's unique status during the Cold War, have experienced a marked drop in the quality of life.

Even all night bars, those dives which helped to create the city's pleasure-seeking image, are now closing earlier due to a drop in their customers' spending power.

The reasons for this gloomy situation are easy to find. The building work evidemnt on all sides is a direct result of the fundamental shift in German and European politics which occurred in Berlin eight years ago this month when the wall dividing the city between the communist east and the capitalist west was breached.

Not only did the two halves of the city need to be rejoined but Berlin also needed to be made ready for government. The result was a flurry of building work which in Berlin is being crammed into a handful of years.

Likewise the city's economy has been forced into a process of high-speed transformation. Before 1989 Berlin was in an industrial time-warp. In the eastern half of the city those factories which had survived the second world war were maintained and expanded as part of a command economy which placed heavy emphasis on smoke-stack facilities. In the west similar plants were kept on by a mixture of subsidies.

But since 1989 there has been a marked change in the city's economic profile. Uncompetitive eastern businesses have been slimmed down or closed down. Western businesses, deprived of their subsidies, have also cut their workforces or moved out to Brandenburg. The result has been a drop in revenues for the Senate and a rise in costs as the numbers of unemployed has grown.

The cuts in subsidies and eradication of income tax breaks has been swift. Before 1989 around half of west Berlin's budget came from the federal government. Berlin is now part of the system of financial equalisation between the states which redistributes money from the richer to the poorer.

According to the Berlin-based German Institute for Economic Research, Berlin has lost a net DM8bn per year from the scrapping of subsidies.

The impact of this on the city's finances has been dramatic. The budget deficit has risen from DM1.6bn in 1990 to DM10.4bn in 1996. In a study of the city's finances the institute notes that every fourth D-Mark now spent by the Senate is borrowed money.

One of the Senate's responses to this has been to step up a privatisation programme – Bewag and Gasag, the utility companies, have been put up for sale. Real estate and housing developments owned by the city will be disposed of. The airport authority is also being sold off. The successful bidders will have to commit themselves to building a new DM5bn-DM8bn international airport.

Annette Fugmann-Heesing, the finance senator, says while the debate about privatisation and public-private partnerships is now taking place across Germany "in Berlin the drastic financial situation means it is taking place with greater intensity."

Ms Fugmann-Heesing, who had to be brought in from west Germany to take on the Senate's toughest and most unpopular job, believes Berlin can position itself as a pioneer among the regional states, the Länder.

If her plans work out, Berlin will not only markedly reduce its deficit but also boast a comparatively lean public sector. There is also further cause for optimism. In its most recent snap-shot report on the city's economy Bankgesellschaft Berlin, a bank partly owned by the city, notes signs of recovery.

At the six month stage this year gross domestic product rose 0.9 per cent, compared with a 2 per cent increase for the western states. At the same stage in 1996 Berlin had a 1.3 per cent drop in GDP, against a 0.7 per cent rise in the western states.

There has been a welcome change in the city's economic profile with growth in sectors such as media and information technology. The big change, however, will come when the federal government finally arrives. This is not so important in terms of the actual numbers of people expected to arrive with government (which may be around 40,000) as in terms of the psychological lift it will give Berlin.

The process of fundamental transformation brought about by unification will have moved on a significant step once the news is being seen to be made in Berlin. But whether that uplift will lead to a return to the all-night revelry of the past, remains to be seen.

EASTERN GERMANY • by Frederick Stüdemann

Less order, more worries

Unification has brought benefits, and uncertainty, for east German families

One of the remarkable features of communist East Germany was its birth rates which were so low that, at the time of unification with the west, the country's population was shrinking. Seen in this context the Schenks, with seven children ranging from the ages of five to 20, are an unusual eastern German family.

But the story of how the Schenk family has coped with life after unification in 1990 is not atypical for the east. While sweeping political change has brought basic freedoms, new opportunities and material improvements, it has also brought uncertainty. Initial optimism has given way to disappointment, roles have been reversed as family members have grappled with the new order of life and there is a lingering distrust of promises made by the west.

In 1989 Christian Schenk, 43, was one of East Germany's better-off people. A meteorologist, he worked for the National People's Army on an airbase in Rothenburg, a small town in Saxony. The town lies on the Neisse river which is also the border with Poland.

Borders are well-understood in the east. In Berlin a concrete wall marked a clear division between east and west; along the border with West Germany barbed wire performed the function. But there were also more subtle borders.

"In East Germany there were clear limits [in daily life]. You may not have agreed with them, but you knew where they were and lived accordingly," says Martina, Christian's energetic wife who works as an insurance saleswoman.

In return, life was more secure. Unemployment was unknown, even if many jobs were unproductive, as suggested by the rise in the number of jobless after unification. The social services net was extensive. Housing, such as the Schenks' four-room flat in one of the ubiquitous concrete "Plattenbauten" (literally : slab buildings) in which the majority of easterners still live, was cheap. Before unification the monthly rent was 130 Ostmarks.

Life now is more complex. The working environment is more competitive and stressful. Families and communities no longer hold together. Status symbols are more important and neighbours are more envious. The monthly rent today is DM900.

Martina is critical of the way easterners have responded to unification. "A lot of people are now sitting around waiting for someone to come and sort everything out," she says.

An explanation for this attitude may be a feeling for some of not being fully integrated into the united Germany. Katharina, a vivacious 20-year-old and the eldest of the Schenk children, says that while she did most of her growing up in united Germany, she is still very conscious of being an easterner. "I think we have our feet more firmly on the ground. We saw something else and are able to compare and criticise."

The national television news often means little to Katharina, an apprentice press wholesaler, as she feels it does not address her concerns or experiences. The only political parties she feels she can relate to are the Greens and the PDS, east Germany's reformed communist party which has been successful in tapping regional concerns and resentments towards the west.

Her father says that, in his experience, westerners are often arrogant and lack scruples. Over the past seven years Christian has certainly learnt about the uncertainties a free market can bring. He left the army in 1990 to take a job at East Germany's national weather institute. But days before the family were due to move the institute was downgraded to a regional authority within the new pan-German system and staff numbers cut.

Unemployed, Christian decided to take the opportunity to retrain and started a business studies course. "As a student I'd always thought of doing something different later on in life. Under socialism that was not possible. But then I suddenly had the chance."

The Schenck family: initial optimism has given way to disappointment

So far his chances have produced few satisfactory results. He has been in and out of work several times and retrained twice. After another spell of unemployment he has just got a job as director of sales for a frozen food manufacturer in Bautzen near Rothenburg.

Financially, the family has been largely supported by Martina who, shortly after unification, found a job with a west German insurance company. With her mobile phone, smart car and engaging manner she belies the simplistic clichés many would-be sophisticated westerners hold about easterners.

As one of her employer's best sales representatives Martina was offered a job earlier this year in Berlin. The family hopes to move from Rothenburg in the next few months, though Christian will probably stay on until Maximilian, their 11 year-old, finishes the school year next summer. Whether he will be able to keep his new job once the family is in Berlin is unclear.

The departure of the Schenk family will be the latest dip in the population of Rothenburg. Since unification, many of the town's young and talented people have left.

For Bernd Lange, the mayor, emigration is one of the main problems affecting the town. But the reasons for leaving are clear. Some 283 people of the town's population of 4,720 are now unemployed. There has also been a rise in crime. Illegal immigrants are regularly apprehended as they try to make their way west.

But there have also been many improvements in town life since 1990, according to Mr Lange, a member of Chancellor Helmut Kohl's Christian Democratic Union. Since 1990 Rothenburg has received some DM90m in public subsidies. "A lot of money has gone into infrastructure. The roads have been repaired. A new school has been built. A lot has been done but it's still not enough and people are not yet content."

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INSIDE

Turmoil in Asia hits 'safe' India

The tidal wave of financial nervousness from south-east Asia has hit India's shores, affecting a number of Global Depositary Receipt issues and prompting intervention from the Reserve Bank of India after the rupee slipped against the dollar. But India's economy is different from those of the south-east Asian tigers and at a different stage in its economic cycle – many analysts rate it as a haven for investors. Page 23

White pepper price rise predicted

This year's sizzling price rises in white pepper are likely to get hotter still early next year as anxiety grows over the persistent drought in Indonesia, the world's biggest pepper producer. At the beginning of 1997, white pepper was trading at around $4,900 a tonne, having almost doubled in price since the middle of 1996. It is soon expected to reach $10,000 a tonne. Page 32

S Africa's gold hopes thwarted

Until last week, the prospect of the gold price sliding to less than $300 per ounce had been the stuff of nightmares in Johannesburg. So when bullion crossed that threshold on Friday, the all gold index shed 4.3 per cent in a day. The slump has hit South African hopes of stock market volatility providing a fillip for gold. Page 42

Oil slips on signs of Iraq-UN detente

Indications of the possibility of compromise in the confrontation between Iraq and the UN were enough to dent crude oil futures. Page 32

Companies in this issue

Market Statistics http://www.FT.com

CROSSWORD, Page 32

Chief price changes yesterday

FRANKFURT (DM)				**PARIS (FFr)**			
Rises				Rises			
BMW	1225	+	36	Alcatel	700	+	26
DLW	194	+	8.5	Bl Aquit	737	+	34
Holzmann	475	+	18	LVMH	973	+	44
MAN	531.2	+	16.2	Lafarge	396	+	18.3
Volkswagen	921	+	15	Promodes	1935	+	75
Falls				Falls			
GEHE	90	–	1	Taittinger	2800	–	124
NEW YORK ($)				**TOKYO (Yen)**			
Rises				Rises			
Avis	35¾	+	4	Aoyama	1330	+	190
Tcndyne	37	+	3¾	Daiko	480	+	38
Texas Inst	100¾	+	7¾	Buns Dsm	660	+	51
Falls				S'tomo Realty	840	+	94
HCC Ins Hlds	21¾	–	1¾	Falls			
Smithfield	28¾	–	2¾	Tokyo R'cast	1870	–	80
Sun Coast	48	–	14	Yamato Kogyo	810	–	16
LONDON (Pence)				**HONG KONG (HK$)**			
Rises				Rises			
Bespt	424	+	21	Beijing Ent	23.65	+	1.05
Newsholm	136½	+	15½	Cheung Kong	52.0	+	2.5
Schroders	1687	+	87	China Light	37.9	+	2.0
Utd Biscuits	219½	+	25½	Henderson Land	33.5	+	2.2
Falls				Hutch Whamp	52.25	+	3.15
Chest Design	95	–	10	Kowloon Mtr	17.3	+	1.05
Stock Moto	185	–	57	**BANGKOK (Baht)**			
TORONTO (C$)				Rises			
Rises				Krung Thai	72.5	+	6.5
Gt Fund Man	32.0	+	1.75	Sri Thong Ag	25.0	+	3.0
Dominion Text	14.4	+	1.4	Siamcosmo Ind	11.0	+	1.0
Sth Wells Gold	7.0	+	1.0	Falls			
Falls				Grand City	87.0	–	7.0
Bonus Gold	2.55	–	0.45	Thanon Asphalt	73.5	–	25.0
Pegasus Gold	1.84	–	3.21	Thpco Asphalt	68.5	–	7.5
Proton Res	1.85	–	0.45				

New York and Toronto prices at 12.30pm.

PepsiCo's $440m snack buy

Acquisition of United Biscuits units will consolidate global dominance

By John Willman, Consumer Industries Editor

PepsiCo is to acquire the Australian and French snack subsidiaries of United Biscuits in a move that will consolidate its dominance of this business globally.

Frito-Lay, PepsiCo's snacks division, will pay the British group $440m for the businesses. In return, United Biscuits will buy Biscuiterie Nantaise, Frito-Lay's French biscuit business, for $30m.

The acquisition is PepsiCo's largest in snack foods and the first of any size since it spun off its restaurant businesses earlier this year. The US group is the global leader in salty snacks with sales of $9.7bn in 1996.

"This is very consistent with our stated strategy of investing in the core businesses of snacks and beverages," the company said. "Such acquisitions give us scale in markets where we currently lack it."

PepsiCo shares rose $¾ to $36⅞ in late morning trading on Wall Street.

Frito-Lay will acquire The Smith's Snackfood Company and The Original Pretzel Company in Australia, which make branded nut, corn and potato snacks. These hold the number one position in the Australian market, but have been facing tough competition from Frito-Lay for two years.

PepsiCo expects it will have to divest some brands in Australia and has been in discussions with the Australian Competition and Consumer Committee, the regulator.

In Europe, Frito-Lay will acquire a chip production plant at Veurne in Belgium and several snack brands: Crik Crok snacks in Belgium, Croky potato chips in France and Nibbit in the Netherlands. United Biscuits will be left with the Croky brand in the Benelux countries and its factory at Deventer in the Netherlands.

PepsiCo has paid 1.27 times 1996 sales and 30 times earnings before interest and taxation – leaving a small gain for United Biscuits on the price paid in 1993 to acquire the two Australian businesses.

The deal is not conditional on regulatory approval, but payments will be made as each regulatory hurdle is passed. Whatever the outcome, PepsiCo will pay $100m for the Australian business by June 30 1998 and United Biscuits will earn interest on the payment from January 2.

The acquisition means United Biscuits – it requires shareholders' approval for the deal – has largely withdrawn from the snacks business outside the UK. In Britain, it remains locked in combat with Frito-Lay, which has the market leader in Walker's potato chips. United Biscuits now has around three-quarters of its turnover in the UK compared with less than half in 1994. Over the last three years, it has pulled out of the US – selling its Keebler subsidiary – and Spain.

Now it has pulled out of western Europe and Australia, having said in September it was determined to hold its market leadership in the latter against a determined challenge from PepsiCo. Yesterday, however, United Biscuits said the price extracted for the Australian business vindicated the defence of its market share.

Lex, Page 18

Liffe seeks French traders to lift share of market

By Samer Iskandar in London

The London International Financial Futures and Options Exchange is trying to attract French traders to London in an attempt to increase its share of the European derivatives market before the introduction of the single currency.

Locals – traders who speculate with their own money – from Matif, the French derivatives exchange, will be offered a fast and simplified procedure to start operating on Liffe, at a presentation in Paris tomorrow.

Liffe's offer comes in response to increasing inquiries by French traders worried that their jobs are jeopardised by Matif's agreement to join its Swiss and German counterparts in an alliance favouring electronic trading.

"We see this as an opportunity to expand our market as Emu approaches," Liffe said yesterday. "It is in our interest to recruit experienced traders."

French traders moving to London would also favour plans by Liffe to launch derivatives on French bonds and short-term interest rates.

Separately, Liffe rejected an invitation from its German rival to co-operate and possibly merge the two exchanges.

"Competition is what made Liffe successful," said Daniel Hodson, Liffe's chief executive. "[This proposed co-operation] is not the culture of London. Our members want competition because it drives costs down."

Yesterday Werner Seifert, general manager of Deutsche Terminbörse, the German exchange, said London and Frankfurt should consider working together rather than competing against each other.

In a letter published in the London Evening Standard, he said a merger of the two was also conceivable.

In September Matif forged a link with DTB and Soffex, the Swiss derivatives market, to offer the three exchanges' products on a single electronic trading system.

Liffe is committed to open outcry trading, where traders face each other on a large floor. While electronic trading is cheaper, proponents of open outcry claim it offers better liquidity.

BA sets up European cut-price no-frills airline

By Alexander Nicoll and Charis Gresser

British Airways yesterday announced plans to launch a new European airline which will offer reduced in-flight service and much lower fares than on regular BA routes.

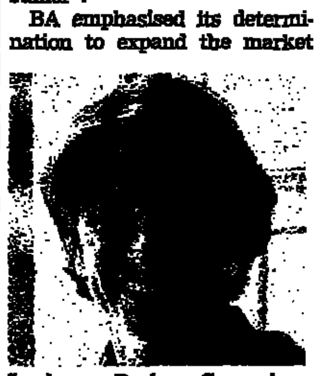
Its decision to enter the cut-price market was attacked by some airlines which have been successful in offering no-frills services.

EasyJet and Debonair were concerned that the new airline, code-named Operation Blue Sky, was an attempt to knock them out of the market.

Stelios Haji-Ioannou, founder of EasyJet, said: "We need to know: is this a viable business or a clever way to eliminate competition?"

Franco Mancassola, Debonair chairman, said: "It doesn't make any sense. I'm trying to figure out what their objective is, and right now, I have to conclude it's anti-competitive. It's an alarm-bell for the consumer".

BA emphasised its determination to expand the market



In charge: Barbara Cassani

and to make a profit. Bob Ayling, BA chief executive, said the new airline "will quickly become a favourite with the budget traveller", adding: "We expect hundreds of thousands of people who have never taken to the air before to travel with the new company."

Ms Barbara Cassani, appointed chief executive of the new airline after conducting a secret six-month study of its potential, said she had undertaken to reach profitability in the third year of operation, which is scheduled to begin early in 1998.

The airline will fly from Stansted Airport, north east of London – which won a competition against Luton Airport – to cities in Italy, Spain, Scandinavia, France and Germany. Within the first year, it will create 150 jobs and build from two leased Boeing 737-300 aircraft to eight.

Ms Cassani said it would have a structure separate from BA and its own name, still undecided. Seats would be bought directly over the telephone with credit cards, and no tickets would be issued. Check-in would be streamlined. Passengers would not be fed but could buy drinks and duty-free goods.

"We will grow the market by dropping fares to very low levels," she said. Any legal challenge from rivals would be fought vigorously.

Fares on routes not covered by low-cost carriers would be at least 30 per cent below standard Apex fares on regular BA flights, and the lowest rates would be available for seats on each aircraft, Ms Cassani said.

Editorial Comment, Page 17;
Lex, Page 18

Quick profit for Telstra investors

Shares leap sparks state sale dispute

By Vincent Boland in London and Bruce Jacques in Sydney

Shares in Telstra, the Australian telecommunications group, yesterday rose sharply to offer investors a handsome immediate profit from the country's biggest privatisation.

The partly-paid shares closed on the Australian stock exchange at A$2.67 – a 30 per cent premium to the institutional issue price of A$2. Retail investors – strongly targeted by the privatisation – were offered the share for a first instalment of A$1.95.

It was the best opening-day performance of any of the big recent telecoms privatisations, and sparked a political row over selling state assets on the cheap.

The strong performance was attributed to unsatisfied local institutional demand, a sharp rise in Asian financial markets and what was seen as an attractive issue price.

Australian institutions were underweight in the shares after being allocated only 21 per cent of the issue. US institutions, seeking to lock in profits, were among the sellers.

At yesterday's closing price, Telstra had a market capitalisation of about A$56bn ($39bn).

Frank Blount, left, finance minister John Fahey and bourse chief Richard Humphrey Reuters

It is due to have a weighting of about 3.5 per cent in the All Ordinaries index when it is included early next year.

The full issue price was A$3.40 for institutions and A$3.30 for retail. The balance is payable in a year. The sale of one-third of Telstra raised A$14.3bn and made it the biggest company in Australia.

"Telstra was pretty good value but a lot of that has been arbitraged away now," said one London-based investor.

Many analysts said the shares looked to be fully valued, at least after yesterday's performance, and predicted that it would settle lower when first-day euphoria dies down. But the reception given to the company yesterday ensured that trading in the shares accounted for more than half the turnover on Australian stock exchanges, with 296.2 million traded at a value of A$792 million.

Hundreds of ordinary investors flocked into the Melbourne and Sydney stock exchanges for the start of trading yesterday, with many saying they were ready to hold on to their allocations for at least a year.

While the government was congratulating itself on the success of the Telstra sell-off, opposition leaders slammed the sale as having short-changed taxpayers. Kim Beazley, leader of the opposition Labor party, said he was against any further sale of Telstra, which remains two-thirds state-controlled.

The conservative government of prime minister John Howard has already indicated that there would be no further sale until after the next general election, due by May 1999. It won the last election partly on a platform to sell a stake in Telstra aimed primarily at local small investors.

Frank Blount, Telstra chief executive, did not comment directly on any further sale of more state-owned shares in Telstra, but he said the company could quickly be ready for further listing.

Itochu to write off $1.8bn assets in restructuring

By Michiyo Nakamoto in Tokyo

Itochu, one of Japan's top five trading companies, is to dispose or write off Y230bn ($1.8bn) worth of non-performing assets in a move that will plunge it into loss.

The non-performing assets relate to properties in Japan and overseas as well as project finance deals, *tokkin* (funds for companies wanting to use surplus cash for short-term investments in securities markets), and fund trust investments. As a result of the measures it will take this year, the company has revised its profits estimate from an initial net profit of Y15bn to a net loss of Y60bn on sales of Y15,500bn.

The restructuring highlights the impact of the plunge in asset prices on Japanese trading companies, which invested heavily in property and other assets at home and abroad during the bubble years of the 1980s. Among the leading all-round trading companies, Itochu was one of the most heavily exposed to property and has been slower than others to deal with its non-performing assets. Analysts welcomed the measures, which are expected to have a positive impact on its balance sheet.

"Itochu had one of the highest interest expenses in the industry. As a consequence [of yesterday's measures], they will have a much leaner balance sheet with lower interest expenses," said Matt Aizawa, industry analyst at Merrill Lynch in Tokyo.

However, Itochu's future profitability was still too low to merit enthusiasm, said Kenichiro Yoshida at Salomon Brothers. With a large number of consolidated subsidiaries not contributing to profits, "the question is whether it will be able to improve its low profitability," he said.

Itochu said it aimed to raise profitability and achieve net profits of at least Y20bn by 2000. But this is much lower than forecast net profits at other trading companies, said Mr Yoshida.

At the end of the last financial year, Itochu had Y333.2bn in ready-for-sale property inventory. Of that amount, the company admitted yesterday that Y240bn were loss-making or would take a long time to generate profits.

Itochu said it planned to deal with these non-performing properties through disposals, development on its own and transfers to a housing subsidiary. It will write off Y100bn worth of its ready-for-sale property inventory which is non-performing in the next half of this year and take a loss of Y50bn.

The company also plans to sell Y25bn worth of overseas properties. It will incur a related extraordinary loss of Y15bn in the second half.

Itochu is also selling Y55bn worth of *tokkin* and fund trusts, resulting in a loss of Y25bn. It is also taking a provision of Y50bn to cover project finance deals which are not expected to generate returns for some years. The extraordinary loss in the second half, including provisions for a revised early retirement scheme, will total Y150bn.

Moyne took out loan to repay funds

By Tim Burt in Stockholm

The controversy over the alleged asset-stripping at Trustor intensified yesterday after it emerged that Lord Moyne, chairman of the Swedish investment company, took out a two-day loan of SKr415m ($55.1m) from a Cayman Islands bank to repay funds missing from the company.

Lawyers appointed by Trustor to investigate the case said Lord Moyne – a member of the Guinness brewing dynasty – agreed the loan with ITC Bank of the Cayman Islands earlier this month and transfered the money to a Luxembourg account held by Trustor.

The loan was taken out after the Swedish state prosecutor ordered an inquiry into the company's financial affairs and its shares were suspended on the Stockholm stock exchange.

ITC has since begun legal action in Luxembourg to recover the money.

The legal action marks the latest twist in the Trustor affair, which centres on the disappearance of SKr620m of the company's assets. That prompted the resignation this month of Trustor's managing director and the arrest of two employees.

Although Lord Moyne has denied any wrongdoing, he has vowed to stand down and sell his shares in the company.

Lawyers acting for the Trustor board yesterday released their initial assessment of events since Lord Moyne acquired control of the company in June.

Stefan Lindskog, senior partner at Stockholm law firm Landahl & Wistrand, said that more than SKr600m was transfered on June 18 from Trustor's Swedish bank accounts to a company account in London. Two days later it was transferred again to a private account held by Thomas Jisander, one of Lord Moyne's so-called "assistants" at Trustor.

Mr Jisander was detained by Swedish police this month on suspicion of abetting a breach of shareholder trust.

According to Mr Lindskog, Trustor's account at Barclays Bank was subsequently found to contain no more than SKr135m – of which SKr79m has been returned to Sweden.

Yesterday, he said Trustor would fight attempts by ITC to seize the SKr415m paid by Lord Moyne into its Luxembourg account, held at the bank F. van Lanschot Bankiers.

Meanwhile, legal documents filed in Luxembourg suggest Lord Moyne was at the centre of a four-stage transaction involving ITC and Trustor. First, he arranged a "short-term loan" from ITC, which was subsequently transferred to Trustor. According to the documents, Trustor was then expected to buy Lord Moyne's shares in a company called Bancorp. The Trustor chairman would then use the proceeds to repay ITC.

"The first two stages of this transaction took place," Mr Lindskog said yesterday. "But we have not acquired any shares in Bancorp from Lord Moyne, nor would we want to."

The Luxembourg court is expected to reach a decision next week on whether to order Trustor to repay ITC.

BBL accepts $4.7bn offer from ING

By Neil Buckley in Brussels

Europe's biggest cross-border banking takeover to date was in effect sealed yesterday as Belgium's Banque Bruxelles Lambert accepted the $4.7bn bid from ING of the Netherlands – only six days after it was made.

The share exchange, expected to go ahead in the first half of December, will create the biggest Benelux bank, with total assets of $312bn, and the 12th biggest in Europe.

Michel Tilmant, BBL chief executive who will gain a seat on the ING board, said the new group would be a model for other European banks. "The future in Europe will be for those banks able to operate against a multi-cultural background and able to have a multi-cultural scope," he said.

Both banks indicated that one of their first "multi-cultural" projects was likely to be expansion into France with BBL as the vehicle, but would give no details.

BBL already has corporate banking activities in France – BBL France, the former Banque Louis Dreyfus – but has no retail banking there.

Mr Tilmant said, however, that BBL had "never been interested" in CIC, the banking arm of French insurer GAN, due to be privatised next year. This suggests a possible difference of opinion with its future parent, which has shown interest in CIC.

He said the deal would create an insurance and banking group big enough to operate in Europe and globally. But it would allow BBL to maintain its name, headquarters and management structure, and entail "no collective lay-offs".

Analysts said the deal would end the unstable shareholder structure, dominated by Baron Albert Frère, the Belgian financier, which had dogged BBL since ING's failed takeover attempt in 1992.

A signal late on Friday from two Frère companies (Groupe Bruxelles Lambert and Royale Belge) and one linked to them in a joint control agreement (banking group Crédit Communal de Belgique) that they would accept the ING bid cleared the way for it to succeed.

With ING already holding 13.45 per cent of BBL, the bid – equivalent to about BFr9,500 a share – values the Belgian bank's total share capital at just under $5.4bn.

The terms are six ING shares and one call warrant, plus BFr300 cash, for each BBL share. The new group will have 80,000 employees and shareholders' equity of about $10.8bn.

Michel Tilmant (right) BBL chief executive, with chairman Jacques Moulaert Reuters

Observer, Page 17

Warner to purchase 10% of Canal Satellite

By Andrew Jack in Paris

Warner Brothers, of the US, is set to pay about FFr400m ($69m) to acquire a 10 per cent stake in Canal Satellite, the French digital television broadcaster.

The transaction is likely to be completed before the end of the month, and at a substantial discount to the estimated market value of Canal Satellite.

The deal will take the form of a rights issue reserved for Warner Brothers, which will have the effect of diluting the existing stakes of Canal Satellite's other founding shareholders.

However, before the end of the year, Compagnie Générale des Eaux, the French utilities group which holds 10 per cent of Canal Satellite, is expected to sell its stake at a much higher price to the three other shareholders, restoring the previous balance of ownership.

Canal Satellite was launched as an analogue service broadcast by satellite in 1992, and has until now retained its original investors. Canal Plus, its pay-television parent, owns 70 per cent, with a further 20 per cent held by the media group Pathé and 10 per cent by Compagnie Générale des Eaux.

Canal Plus said Warner Brothers had been granted an option to acquire 10 per cent of the satellite operation in May last year, after talks with two alternative investors – the television groups CLT and TF1 – collapsed. TF1 went on to become a leading shareholder in the rival TPS satellite service.

CLT and TF1 withdrew on the grounds that an evaluation of the price of Canal Satellite carried out by SBC Warburg, the investment bank, was too high. The bank valued the company at FFr3.8bn.

However, the option given to Warner Brothers is tied to this valuation, adjusted slightly.

Canal Plus has not denied analysts' estimates which suggest that Canal Satellite is now worth FFr6bn-FFr8bn.

Warner Brothers has been linked to Canal Plus since the French company was created in 1984, and has signed a number of film distribution deals with it. Canal Satellite's pre-interest losses for the first half of the year were FFr186m. It claims nearly 600,000 subscribers.

LGT to seek single buyer to avoid break-up

By Jane Martinson, Investment Correspondent

LGT Asset Management, which manages some £40bn ($67.8bn) of funds, said it was keen to be bought as a whole rather than divided into separate units when its disposal was officially announced yesterday.

The business, which is owned by the Liechtenstein royal family, is one of the largest fund management groups to be sold in recent years. Analysts have estimated a price of about $2bn for the group, which manages a range of retail and institutional funds in the US and Europe.

The size of the offering prompted several investment bankers to question demand for the whole business. "Nobody has been knocking on our door today," said one corporate financier. "I think there's a lot of uncertainty about what's for sale."

However, a spokeswoman for LGT Asset Management said: "The point is to sell it as one unified business. We are offering a very attractive package for anyone wanting an instant, ready-made asset management group."

Potential buyers are expected to include several large European banks which are keen to expand their asset management operations such as ABN Amro Hoare Govett, the Dutch-owned investment bank, Dresdner Bank, the German group, and Société Générale.

US buyers could be interested, although they might be deterred by the issue of goodwill, which represents a large part of a fund management company's value.

Roger Yates, global chief investment officer at LGT, said that a potential buyer was likely to be a "fairly substantial institutional investor committed to building a global asset management company".

Prince Philipp, younger brother of the Liechtenstein head of state and chief executive of the Liechtenstein Global Trust which owns the asset management business, decided to sell it because of rapid consolidation in the industry.

Mr Yates cited recent mergers, such as that between Zurich, the Swiss group, and BAT, and the Morgan Stanley merger with Dean Witter as evidence that the business would need to grow to succeed.

He denied the sale was prompted by difficulties in assimilating Chancellor Capital Management, the US group LGT bought last year. "The fact is that the landscape of fund management has changed enormously over the past 12 months," he said.

The Liechtenstein Global Trust is to focus on its core, offshore private banking business. It is being advised by Goldman Sachs, the US investment bank.

Some investment bankers questioned the sales process yesterday in which the business was put up for sale without a buyer having been found.

BCI lifts Hungary stake

By Paul Betts in Milan

Banca Commerciale Italiana, the privatised banking group, is to pay L630bn ($366m) to lift its stake in Central-European International Bank (CIB), of Budapest, to 95 per cent.

BCI, which already owns 13.2 per cent, said that it regarded Hungary as offering some of the most interesting financial prospects in central Europe.

BCI will buy out the National Bank of Hungary (which owns 34 per cent) and other CIB shareholders, including Société Générale of France, Germany's Bayerische Vereinsbank and Tokyo's Sakura Bank. The Italian bank will control 95 per cent of the Hungarian group, with the remaining 5 per cent held by Japan's Long-Term Credit Bank.

CIB, Hungary's fifth-largest bank in terms of assets, was set up in 1979 as a consortium between the Hungarian central bank and a group of foreign credit institutes, with the main purpose of providing international trade financing. It was the first public limited company controlled by foreign shareholders in Hungary and the former Comecon countries.

EUROPEAN NEWS DIGEST

Kvaerner posts solid advance

Shares in Kvaerner yesterday climbed NKr9 to NKr349 after the Anglo-Norwegian engineering and shipping group reported solid growth in profits and sales for the first nine months of the year. There was also an improvement in the order book, which stood at NKr85bn ($12.02bn), NKr17bn higher than at the start of the year.

Kvaerner said its pre-tax profit of NKr903m included NKr557m in gains on the sale of assets, and compared with NKr851m a year earlier. The 30 per cent increase in turnover, to NKr53.17bn, was attributed mainly to the acquisition of former Trafalgar House companies. Financial items represented a net loss of NKr414m compared with NKr61m a year earlier. Net interest expense rose to NKr879m from NKr441m mainly because of the acquisition of Trafalgar House.

For the group as a whole, full-year operating profit in 1997 is expected to improve markedly on last year, Kvaerner added. Earnings per share were NKr14.87 against NKr14.17. *Agencies, Oslo*

■ RETAILING

Czech group in Polish expansion

Interkontakt, the leading retailer in the Czech Republic, is set to become the biggest food retailer in Poland through the Kč1.2bn ($36m) acquisition of the PHS group from the government. The investment will be the largest by a Czech company in Poland and demonstrates Interkontakt's ambition to expand from its home markets in the Czech Republic and Slovakia to become a regional retailer.

Interkontakt will today announce that it will boost PHS's capital by 125m zlotys ($35.79m) to 185m zlotys, giving it a 67 per cent holding.

Robert Anderson, Prague and Chris Bobinski, Warsaw

■ TELEVISION

CME losses deepen

Central European Media Enterprises (CME), the pioneer of private commercial television in east Europe, ran up heavy losses in the first nine months this year as it expanded. It incurred a net loss of $60.6m in the period compared with a loss of $27.1m in the same period in 1996. The deficit in the third quarter broadened to $18.8m from $14.7m a year ago.

CME, quoted on the Nasdaq exchange in New York and controlled by Ronald Lauder, one of the heirs to the Estée Lauder cosmetics fortune, recently opened a television network in Poland (TVN) with local partners and in Hungary (TV3), and has added a second channel in Slovenia (Gajba TV). It claims a reach of more than 110m potential viewers across the region. Turnover in the first nine months rose 12.1 per cent to $94.4m from $84.2m a year earlier. *Kevin Done, East Europe Correspondent*

■ BANKING

BHF-Bank sells Czech stake

BHF-Bank, the German bank, has agreed to sell its 46.9 per cent stake in Zivnostenska Banka, the Czech Republic's sixth-largest bank, to Bankgesellschaft Berlin (BGB). The decision by BHF-Bank is part of a restructuring of the group, which is seeking to concentrate on higher-margin activities, such as corporate finance and advisory work. Zivnostenska, which has assets of Kč38bn ($30m), specialises in corporate finance, trade and project finance and private banking.

The acquisition fits in with BGB's ambition to expand its presence in the region. The bank, which is 57 per cent owned by the city of Berlin, is also planning to merge with Norddeutsche Landesbank, which owns 15 per cent of its shares. Zivnostenska, the oldest bank in the Czech Republic, was the first bank to be sold to foreign investors in central Europe. BHF-Bank bought 40 per cent in 1992, later increasing this to 46.9 per cent. The International Finance Corporation, the investment arm of the World Bank, owns 10 per cent.

This week the Czech central bank is expected to announce the results of the tender for Agrobanka, the fifth-biggest bank, which was taken into administration in September 1996. The bad loans have been hived off and GE Capital of the US, which also owns Budapest Bank in Hungary, is the last remaining bidder.

Robert Anderson, Prague and Frederick Stüdemann, Berlin

■ BIOTECHNOLOGY

Solvay in research deal

Belgium's Solvay yesterday stepped up moves to develop its pharmaceuticals business and reduce its reliance on chemicals and plastics by signing a research deal with Innogenetics, the Belgian-based biotech group. Solvay took an 8.3 per cent stake for $35.5m, and signed a five-year research contract with immediate investment of $4m, and annual funding of up to $2m. Innogenetics will use its work on discovering novel genes to identify targets for Solvay compounds. *Neil Buckley, Brussels*

■ MINING

Disturbances hit Eramet shares

Shares of Eramet, the French mining group, fell in Paris yesterday after it said political and social disturbances in the Pacific island of New Caledonia had resulted in reduced activity in its nickel arm since mid-October. The shares closed down FFr245, or 1.2 per cent, compared with a 2.85 per cent advance by the benchmark CAC-40 index. But the company said a full-year result at least equal to last year's FFr305m ($52.6m) was still on the cards, provided the disturbances finished "quickly".

David Owen, Paris

■ STEEL MERGER

Krupp and Thyssen on course

Krupp and Thyssen, the German steel producers in merger talks, yesterday signalled the link-up was still on course in spite of a bitter struggle for the top job at the combined group. In a brief statement after talks yesterday, the two said important questions about company law, tax and valuation had been clarified, but gave no details. Gerhard Cromme, Krupp chief executive, and Dieter Vogel, head of Thyssen, are both seeking to head the new entity. *Peter Norman, Bonn*

Columbia/HCA looks at hospital sell-offs

By Richard Waters in New York

The reversal of the one of the boldest corporate strategies to have been devised in the US healthcare industry was set in motion yesterday as Columbia/HCA, the hospital group, announced a review that could lead to the disposal of a large part of its operations.

The disposal of up to 109 of the company's hospitals, nearly a third of the total, and a reorganisation into locally controlled regional units would reverse Columbia's rapid growth as the first national operator of hospitals, out-patient surgery centres and other healthcare facilities.

Under Richard Scott, its former chief executive, the group became the most aggressive acquirer and cost-cutter in the healthcare business, helping to fuel a wave of consolidation and cost-containment across the industry.

However, the Nashville-based company's strategy has unravelled in recent months following investigations into its billing practices and the resignation of Mr Scott.

Yesterday, Thomas Frist, chairman and chief executive, unveiled a reorganisation intended to create what he called "smaller, more independent, community-based networks".

He added that the company had retained Goldman Sachs to advise it on spinning off or restructuring a large group of its hospitals. If completed, this could lead to the disposal of 109 hotels with combined revenues last year of around $4bn, leaving the group with 232 hospitals with revenues of $14.2bn.

By backing away from Mr Scott's ambitious national plans, Mr Frist could help to deflect some of the penalties Columbia/HCA could face if the accusations about its overbilling are substantiated.

His predecessor's use of the company's market power to squeeze rivals created enemies in many of the areas where it operates. The restructuring is designed to produce a "streamlining of our organisational structure and a reduction in overhead and administrative costs while providing greater focus on each facility's positioning in the local community", said Mr Frist.

Thomas Frist: aiming to create smaller, community-based networks AP

Dow Jones in talks with GE over TV link

By Richard Waters in New York and John Gapper in London

Dow Jones, the US business information company, is believed to be close to an agreement with General Electric that would link the two groups' international television interests.

A deal is likely to rekindle talk of a broader relationship between the companies, which has been rife since Dow Jones named three powerful outside directors to its board in response to shareholder displeasure.

GE is thought to be among suitors to have approached Dow Jones since it emerged early this year that some members of the controlling Bancroft family were unhappy with management of the group, particularly its Dow Jones Markets unit.

The television deal is expected to involve Dow Jones' two international business channels, European Business News and Asian Business News, in a programming agreement with CNBC, the financial television network owned by GE.

The two loss-making programming units, based in London and Singapore, have had distribution deals with affiliates of TCI, the US cable network. However, the deal would involve them switching to CNBC's international outlets.

Financial Times Television, which is owned by Pearson, the media group, stands to lose a programme contract with CNBC in Europe as a result of the deal. The contract to supply seven hours of programming daily runs out in January.

Colin Chapman, chief executive of FTTV, said yesterday that he expected the contract not to be renewed. FTTV has some smaller programme contracts but the CNBC contract has been its most significant deal.

Dow Jones declined to comment on its relationship with GE, but said its television division was "not for sale". Although a deal with GE is believed to be close, one person close to both sides said it was unlikely to come at tomorrow's regularly scheduled Dow Jones board meeting.

Separately, Dow Jones' advisers are understood to have had talks with potential buyers of the markets division in recent weeks. It has announced it will consider alternatives to its $650m investment plan for the unit. This has led to a series of overtures to the company, with Thomson Financial Services, part of the Canadian media group, among those interested.

Publicis chief seeks True North merger

By Andrew Jack in Paris

Publicis, the quoted French advertising agency, yesterday attacked the acquisition plans of its former US partner, True North, and instead proposed a merger between True North and Publicis' main subsidiary designed to create a global group.

Maurice Lévy, chairman of Publicis, yesterday made public a letter which he sent to True North on November 10, proposing a merger between True North and Publicis Communication in a cash and shares deal worth $28 for each True North share.

Mr Lévy said he was "disappointed" with True North's planned purchase of its US competitor, Bozell, and warned that he would use his 18.5 per cent stake in True North to attempt to block the purchase.

The action is the latest step in a long-running feud with True North – Publicis' former partner in Europe, through the Publicis-FCB network – which led to a restructuring of the two groups' shareholdings in February.

Following the changes, Publicis had an 18.5 per cent stake in True North, making it the largest single investor in the US group. It holds 73.5 per cent of Publicis Communications, which contains the French group's European activities. True North holds the remaining 26.5 per cent in Publicis Communications.

Publicis has made a string of international acquisitions in the last few months via the parent company and outside the orbit of Publicis Communications, including deals in Canada, South America, Australia, Israel, South Africa and south-east Asia.

Mr Lévy said True North's "fundamental strategic weakness" had been its "failure to establish a global presence", and the acquisition of Bozell, which is largely US-based, would further compound this problem. He also claimed True North was paying too much for Bozell.

Publicis refused to comment yesterday on any valuation of Publicis Communication, the detailed nature of its offer for True North, or whether it had received any reply to Mr Lévy's letter.

However, in an indication of the failure of progress, Mr Lévy wrote he had outlined the suggestion of a combined international network at least since a presentation to True North's board in November 1995.

He also hinted at more aggressive action if True North refused to co-operate, stating that "our preferred course would be to negotiate a transaction that can be presented to our respective stockholders and clients as [an] amicable and joint effort."

Domtex agrees to bid

By Scott Morrison in Toronto

Dominion Textile, the Canadian producer of textiles and non-woven goods, has said it would accept a revised C$595m (US$421m) cash takeover offer by US rival Polymer Group, ending weeks of uncertainty during which the Montreal-based group said it was in talks with white knights. Polymer will also assume about C$290m in Dominion debt.

The acquisition would bolster Polymer in the rapidly expanding US$1.8bn global industry for non-woven goods – or "fluff" products – used in disposable nappies and similar hygiene items. The company is already the world's fourth largest in the sector. Polymer raised its cash offer by 23 per cent in order to secure Dominion Textile's fast-growing non-woven division.

Polymer's initial offer of C$482m prompted John Boland, Dominion chief executive, to respond that the bid was "opportunistic" and did not reflect the value of the company. Polymer is expected to sell Dominion's textile assets, including Klopman International, its European subsidiary, and its US Swift denim division.

Dominion's non-woven goods operations, which had C$197m in sales during the company's last fiscal year, would increase Polymer's consolidated sales by about 25 per cent. Polymer reported 1996 sales of US$521m and net income of US$14.8m before extraordinary charges.

Polymer, which already owns 14.5 per cent of the Canadian company, also reduced the minimum tender condition from 90 per cent to 67 per cent of Dominion's publicly held shares.

Dominion has said it would welcome other offers, but would not solicit any competing transactions. Polymer's offer is due to expire on November 28.

Union Pacific warns of losses

By Richard Tomkins in New York

Union Pacific, the biggest US railway company, yesterday warned it could make a substantial loss in the fourth quarter because of the continuing cost of resolving problems that have caused severe disruption and delays to rail transport in the western US.

It said earnings per share for the whole year were expected to be lower than last year's, but the uncertainties over the eventual cost of the congestion-related problems made the outlook for the fourth quarter unclear.

"Based on various assumptions, fourth-quarter results could range from close to break-even to a substantial loss," the company said.

Last year, Union Pacific reported fourth-quarter net profits of $229m, or 93 cents a share, and the consensus forecast of analysts surveyed by First Call was for earnings per share of 53 cents a share this time.

Union Pacific's problems follow the company's $3.9bn takeover of Southern Pacific Rail, another big railway company in the western US, last year. Congestion and delays started building up in the Houston, Texas, area in June, and then spread.

Analysts have suggested that the problems stem from unexpected difficulties in merging the two railway companies, but Union Pacific itself has blamed a shortage of train crews, heavy storms that washed away tracks, and a backlog of freight at the Mexican border.

The delays have brought protests from several industries that rely heavily on rail transport, such as chemical manufacturers, and Union Pacific faces the possibility of demands for reparations.

Yesterday, Union Pacific said it was making steady progress with its service recovery plan. Fewer sidings were blocked, fewer trains delayed for want of a crew, the Fort Worth/Dallas metro complex was operating more fluidly and operations at Mexican gateways were near normal.

Shake-up planned at MTV Europe

By Alice Rawsthorn in London

MTV Europe, the European version of the US video music channel, is restructuring its operations to devolve more responsibility for programme-making and scheduling to its regional services.

The changes, which will involve the loss of about 80 jobs from its 600-strong workforce, form part of the channel's efforts to strengthen its programming before the launch of rival channels on the new generation of digital television services.

Brent Hansen, president and chief executive of MTV Europe – a subsidiary of Viacom, the US entertainment group – said the restructuring was to make the channel "more flexible and responsive" to the needs of viewers in different parts of Europe. "We've got to stay ahead of the game," he said.

Eighteen months ago, MTV Europe announced plans to abandon its original policy of relaying the same schedule across Europe in favour of developing four regional services. The UK has its own service, Southern is based in Italy, and Central in Germany, while Northern is relayed across Scandinavia, Benelux and eastern Europe.

Mr Hansen said those changes had already triggered increases in viewing and advertising revenue. Some 58m homes now have access to MTV Europe, against 53.6m in March 1996. Total advertising revenue had risen by about 10 per cent in the past year, he said, with revenue rising by 140 per cent and 320 per cent in the UK and Italy, respectively.

Until now, much of MTV Europe's programming has come from a team at the channel's corporate headquarters in London.

The restructuring involves reducing the number of staff at MTV Europe's corporate headquarters from 360 to 150, while increasing the number of people employed by the four regional services by a total of 150. Some central staff will transfer to the regional operations.

Each of the four regional services will compose their own video playlists and programming schedules.

AlliedSignal unit buys Holt Lloyd

By Nikki Tait in Chicago

AlliedSignal, the New Jersey-based engineering group, said yesterday its Prestone automotive care products business was buying Holt Lloyd, of the UK, for a total of $155m.

The move is further evidence of the consolidation sweeping the automotive supply industry, especially in the US.

Holt Lloyd, which is based in Wilmslow, Cheshire, makes branded car waxes, sealants, additives and paint products.

It has annual sales of about $150m and employs about 640 people at plants in the UK, France, Australia and New Zealand.

Yesterday, Electra Fleming – which led a management buy-out of Holt Lloyd from the Morgan Crucible group three years ago – said that it had originally intended to hold its shares for at least three more years, but had been approached by two US groups interested in acquiring the UK business, of which AlliedSignal was one.

The deal is complicated by Holt's prior agreement to buy the European and Asian operations of Simoniz, which have annual sales of about $24m.

At present, about one-fifth of the UK company's sales come from the distribution of Turtle car waxes, but this deal is due to end at the end of this year. The aim of the Simoniz transaction is to replace the Turtle sales.

However, the Simoniz deal will not close until January, so Allied is buying the UK business with the rights to complete this transaction. The consideration for the Simoniz purchase is included in the $155m price.

Prestone was acquired by Allied earlier this year, forming part of its automotive division.

David Lundstedt, Prestone president, said yesterday that the acquisition would give the company new retail distribution channels in Europe and Asia, and provide well-known brand names – notably in Japan.

Currency problems hit Thai corporate results

By William Barnes in Bangkok

Poor quarterly results from Thailand's leading bank, developer, construction and record companies underlined the damage inflicted by a weak currency, soaring bad debts and tumbling local demand on the corporate sector.

Sriyan Pieterz, head of research at SocGen-Crosby in Bangkok, said the results signalled the decline in operating earnings that will start to bite in 1998.

Bangkok Bank said its audited third-quarter profits were 42.8 per cent down at Bt2.93bn ($75m). The bigger Thai banks, unlike most of their customers, made substantial foreign exchange gains from the baht flotation, and have seen flight-to-quality deposit gains and increases in interest income recently. However, these have been offset by spreading bad debts that for Bangkok Bank will require a 374 per cent year-on-year increase in provisions.

The near 50 per cent fall in the value of the baht since its flotation on July 2 has lifted the cost of foreign borrowing and provisioning requirements.

Domestic demand has also slowed in recent months, underlined by the 73.3 per cent drop in sales of new vehicles in October to a 10-month low.

The outlook for the next 12 months is bleak. Banks will need more lump-sum provisions as companies succumb to the crisis, said Kenneth Ng, banking analyst at ING Barings Thai banks.

Bangkok Bank was a big lender to the once high-flying Alphatec Electronics group, which is currently $450m behind on payments to lenders.

Siam Commercial Bank said its audited net profits fell 13 per cent in the third quarter to Bt2.02bn.

Land & Houses, the biggest developer, said its third-quarter net results plummeted from profits of Bt436m a year ago to a loss of Bt3bn this time. The situation is unlikely to improve in the remaining quarter, as the company has been hit by oversupply in the residential property market.

Ital-Thai, the construction leader, reported a Bt2bn loss compared with a net profit of Bt315m in the third quarter of 1996, helped mainly by a decline in big orders from infrastructure projects.

Srithai Superware – the plastic plate maker – lost Bt1.77bn, compared with a profit of Bt159m a year ago, after a slump in domestic consumer demand.

The record company Grammy Entertainment has seen business hold up well, but foreign exchange losses caused a 29 per cent drop in third-quarter profits to Bt112m.

Shinawatra, the communications group, lost Bt2.7bn in the third quarter after Bt331m profit over the same period in 1996.

Japan's rail groups face new burden

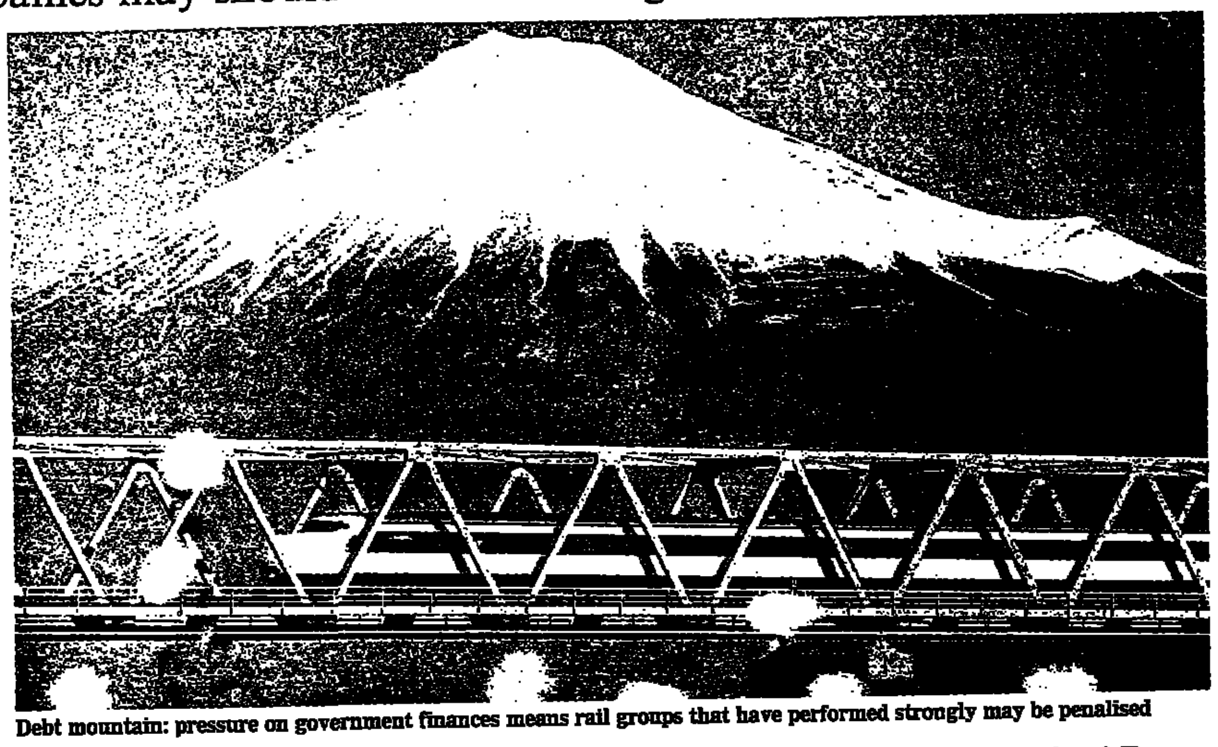
Privatised companies may shoulder more debt if government rewrites rules

Investors in Japan's privatised railways may soon be paying the price of the Japanese government's misreading of the property and share markets over the last decade.

The Liberal Democratic party's panel on fiscal and structural reform – chaired by Ryutaro Hashimoto, the prime minister – is this week expected to propose a solution for the mountain of debt left over from the privatisation 10 years ago of Japan's national railway system. There are fears the government may rewrite the rules on the debt burden carried by the privatised companies, despite the impact this would have on shareholders and investor confidence in future privatisations.

When the debt-laden Japanese National Railway was privatised in 1987, it was split into seven companies – six regional railways and a freight carrier – and a body called the Japanese National Railway Settlement Corporation. The new companies started life with a large but manageable portion of JNR's debts, while JNRSC took on the rest of the debt together with assets such as JNR-owned land and shares in the new companies. The intention was that land sales and flotations would pay off most of the debt over 10 years, after which the remainder would become the taxpayers' problem.

However, poor management and the collapse in the Japanese stock and property markets have meant JNRSC's debts have grown over the ten years: it now has total liabilities of more than Y28,000bn ($220bn).



Debt mountain: pressure on government finances means rail groups that have performed strongly may be penalised

When JR East, JR West and JR Central were floated on the Tokyo stock exchange, investors were told legal liability for the former JNR's debts was limited to the amount they took on board at privatisation. The three are now profitable and making inroads into the debt. But the pressure on government finances means their strong performance may be rewarded with a hefty penalty.

The new burden could take several forms. One option is for the JR companies to be pressured "voluntarily" to take on more of the old JNR debt. A more likely outcome is they will be given more responsibility for pension provision for former JNR employees, which accounts for Y3,500bn of the JNRSC debt. Alternatively, the government could impose a tax on rail travel to help it meet the debt repayments.

Since these proposals were raised, the JR companies have been lobbying furiously against them, but their arguments have met with little sympathy from the government. The idea that pain should be shared by the entire community is widespread in Japan – but not in international financial circles.

"This is supposed to be a capitalist country," said Shigeru Okazaki, analyst at SBC Warburg in Tokyo. "Doing something like that would be ruinous to investor confidence."

In particular, foreign investors, who have been increasingly important in Japan, expect governments to protect their investments in privatised companies, rather than landing them with new liabilities.

The new Labour government in the UK caused outrage with its windfall tax on the privatised utilities. The difference is that while the UK's privatisation programme has run its course, in Japan the imposition of a tax after-the-fact could affect future floats.

Future sales of JR companies' shares are meant to be used to pay down the settlement corporation's debt, but the value of those shares would be hit by the government's possible move. For example, the 1.5m shares in JR East still held by JNRSC are due to be sold during this financial year. According to projections from SBC Warburg, if JR East was forced to take on the same proportion of the debt burden as it was in 1987, its annual interest charge could increase by Y121bn, wiping out the forecast Y87bn pre-tax profit for the current financial year.

Bethan Hutton

China groups to invest in Lai Sun spin-off

By Louise Lucas in Hong Kong

Lai Sun, the Hong Kong-based diversified property development and investment group, has secured two mainland strategic investors for the proposed US$100m spin-off of its China property activities.

Arms of the Beijing municipal government and the Bank of China will both take stakes in the newly created vehicle, Lai Fung Holdings, which Lai Sun says will give it access to quality property projects and competitively priced financing.

The spin-off is due to go ahead later this month, depending on market conditions. The group said it would offer 280m shares in Lai Fung Holdings, plus an additional 42m in the event of an oversubscription, at an issue price of HK$2.80.

These proposals, foreshadowed by an issue of convertible guaranteed bonds three years ago, form part of a broader restructuring at Lai Sun aimed at creating more clearly defined investment opportunities for investors.

The group also plans to hive off its shares in Asia Television, one of the territory's two terrestrial stations. Other streamlining moves include spinning off the hotels portfolio.

Lai Fung Holdings, which contains stakes in mainland properties with an aggregate open-market value of HK$5.9bn (US$763m), is mainly active in the southern province of Guangdong. It also has interests in developments in Shanghai, and is looking to Beijing Holdings, one of its two strategic investors, to help add more developments in the capital to its portfolio.

Beijing Holdings, an arm of the Beijing municipal government and parent company of Beijing Enterprises, is to take 3.6 per cent of Lai Fung's issued share capital immediately following completion of the share offer.

Sun Chung Estate Company, a wholly owned subsidiary of Bank of China, has agreed to take a 3.1 per cent interest.

Lai Sun said this would benefit Lai Fung by giving it access to competitively priced sources of financing for its China development activities.

In addition, directors say, it is likely that Sun Chung Estate will help the group to secure quality property development opportunities on the mainland.

In the year to July 31, Lai Fung made a net profit of HK$36.13m, down from HK$44.89m in the previous year.

Credit Lyonnais Securities (Asia) is acting as sponsor and global co-ordinator for the share offer.

Pricing of the shares is expected to represent a discount of at least 15 per cent per share to the pro forma net tangible asset value of Lai Fung, Lai Sun said.

Telecoms downturn hurts Kyocera

By Michiyo Nakamoto in Tokyo

Kyocera, the Japanese manufacturer of ceramic products and high-tech equipment, suffered a decline in first-half profits in the face of slipping demand for telecoms equipment in Japan and for its semiconductor parts in overseas markets.

Group sales in the six months to September were flat, at Y354.2bn ($2.79bn) compared with Y355.1bn, while pre-tax profits fell 13 per cent from Y61.2bn to Y53.4bn.

Net profits slipped 4 per cent to Y24.7bn against Y25.7bn.

However, Kyocera expects full-year consolidated results to be lifted by contributions from subsidiaries in the electronic components and telecoms industries.

Full-year group sales are forecast to rise 6 per cent to Y755bn.

Pre-tax profits for the year are expected to increase nearly 19 per cent from Y116.4bn to a record Y127bn. The previous record of Y163.8bn, achieved in 1996, included an extraordinary profit from the listing in New York of AVX, its US subsidiary, without which profits that year would have been Y125.4bn, the company said.

Net profits this year are forecast at Y57bn, an increase of 25 per cent.

Kyocera said its first-half performance was adversely affected by a downturn in sales of telecoms equipment and a continuing shift to plastic semiconductor packages.

In the telecoms market, the strong growth in infrastructure investment in the previous first half meant the decline this time was particularly sharp. Pricing pressures in an increasingly competitive domestic market also affected sales, with the telecoms division suffering a 30 per cent decline in the six-month period.

The decline was partly offset by an improvement at its telecoms subsidiary DDI, the long-distance and cellular phone operator.

The electronic components division enjoyed a rise in the contribution from AVX in the US, where sales increased 30 per cent in yen terms.

Sales in the sector were up 27 per cent on firm demand for from the computer and telecoms industries.

Kyocera is investing in facilities to target the growing market for plastic packages for microprocessing units. Full-scale production of plastic packages is expected to start in the near future.

Meanwhile, advanced CDMA handsets for cellular phones to be lamched in the months ahead are expected to stimulate new demand in the market.

Salim buys into Danamon

By Sander Thoenes in Jakarta

Salim Group, the Indonesian conglomerate, will take a 19 per cent stake in Bank Danamon, the country's second bank, while Credit Suisse First Boston, Salim's financial adviser, has signed a memorandum of understanding to buy 10 per cent of the bank pending due diligence and pricing negotiations.

Danamon International, the holding company of the Admajaya family which founded the bank, would thereby reduce its stake from 48 per cent to 19 per cent.

The bank's shares ended unchanged yesterday, following a 37 per cent surge last week when rumours of the deal first leaked out.

Salim Group, which is paying nearly Rp297.9bn ($86.6m) for the stake, denied reports that it planned to merge Danamon with its Bank of Central Asia, which is Indonesia's largest commercial bank.

BCA faced a rush on its accounts last week after rumours that Salim's founder, Liem Sioe Liong, had died and the bank was in financial trouble.

Bank Danamon survived a similar rush in August and yesterday insisted the bank was liquid.

Many of Indonesia's 200 banks have been hurt by the liquidity squeeze in recent months and the drop of the rupiah, as many had unhedged foreign currency loans outstanding.

The Indonesian government earlier this month withdrew 16 licences, sparking a wave of bank mergers to fend off further closures of banks which fail to meet capital ratio requirements.

Usman Admajaya, who remains president director of Bank Danamon, denied reports that he would transfer the shares to pay off loans for his property projects.

UEM takes stake in parent

By James Kynge in Singapore

UEM, a subsidiary of Renong, Malaysia's largest infrastructure firm, yesterday announced that it had purchased a 32.6 per cent stake in its parent for M$2.34bn (US$706.9m).

Industry analysts could not find any operational logic for the deal, which they said may have been an exercise in raising funds for Renong.

The large infrastructure company, which has close ties with the government, signalled to stock market investors earlier this year that it was short of cash when it carried out an elaborate scheme to dispose of 112m shares in another subsidiary, Time Engineering. It sold the shares to a Cayman islands subsidiary for M$554m, with a pledge to buy them back after two years if necessary.

Analysts said that Renong's problem was its high gearing and the high expectations invested in it by the government. It is taking a leading role the building of Putrajaya, a M$20bn new administrative capital near Kuala Lumpur, and Cyberjaya, a M$10bn city near Putrajaya.

Both cities are prestige projects backed by Mahathir Mohamad, the prime minister, who is determined that they will go ahead.

For UEM, which built and operates the North-South Expressway, Malaysia's longest toll road, the deal is not regarded as favourable.

Analysts said the company had to borrow to finance the purchase and yet it was difficult to see where the return would come from.

It was possible, however, that Renong may at a later date inject a business into UEM, such as PUTRA, a light railway system under construction in Kuala Lumpur for M$4.35bn.

Company executives declined to comment.

India's 'safe haven' under threat from Asian turmoil

Some GDR issues have been cancelled or scaled back as foreign fund managers lose their appetite for emerging markets

The tidal wave of financial nervousness from south-east Asia has reached India.

MTNL, the state-owned telephone company, was last week forced to reduce its 100m share Global Depositary Receipt issue, planned for December, to 60m shares because of weak demand. The MTNL issue will now raise barely half the $900m initially planned. A week earlier, state-owned Gas Authority of India (Gail) had abandoned a $800m GDR issue.

Meanwhile, share prices fell as the rupee slipped against the dollar over the past two weeks, triggering intervention from the Reserve Bank of India.

Analysts who had earlier debated whether India would face repercussions are now asking how badly it will suffer and for how long.

However, India's economy is very different from those of the south-east Asian "tigers" and is at a different stage in its economic cycle. It does not have a bulging current account deficit, asset prices and inflation are modest, and the currency is relatively stable and protected from speculators.

Many analysts rate India as a "safe haven" for Asian portfolio investors – safe in the short term, and with growth prospects as the country emerges from industrial slowdown.

Some money is still flowing in. On the same day that the finance ministry announced it was abandoning the Gail issue, Caspian Securities said it had secured $70m for a new fund investing in Indian public sector companies.

But many foreign investors – who have suffered big losses in south-east Asia – have little appetite for another Asian emerging market. India is also exposed to redemption pressures on pan-Asia funds.

"It is very difficult for fund managers to make a case for investing in India aggressively, as they are bearish on Asia generally," says the head of one investment bank involved in India's privatisation programme.

Furthermore, India's economy has its own problems – poor infrastructure, weak exports and a rising fiscal deficit.

For a while, it appeared as if India had escaped the turmoil. The National Stock Exchange fell 8 per cent on October 28 – when Wall Street crashed – and rebounded 7 per cent the next day as Wall Street recovered smartly. It was India's first experience of a global correction – stock markets actually rose on Black Monday in 1987 when markets worldwide tumbled – but in hindsight it was not alarming.

Finance ministry officials privately admit the target of raising Rs70bn from asset sales by the end of the fiscal year now looks 'unlikely'

Nevertheless, the collapse of the Gail issue dashed hopes of a complete escape. Investors in London – hitherto reasonably happy with the unofficial asking price of about Rs150 per underlying share – turned bearish.

Gail's investment bankers – BZW, Robert Fleming and Morgan Stanley – warned the government that the sale could only go ahead at bargain-basement prices. India scrapped the sale, leaving a gap of $800m, or 0.25 per cent of GDP, in its government finances.

Most analysts believe the move was the lesser of two evils. "No investor sells his shares immediately after the market has crashed," said P Chidambaram, finance minister. But finance ministry officials privately admit the target of raising Rs70bn ($1.9bn) from asset sales by the end of the fiscal year now looks "unlikely".

The government can hardly be blamed for the collapse in demand for Asian paper. But the plan to sell GDRs in Gail, MTNL, Indian Oil and Container Corporation in less than six months – for a total of more than $2bn – was asking for trouble from the start. Old hands recall that India bungled an earlier GDR offering for telecoms company VSNL – pulling the sale, only to return to the market at a much lower price.

Lower proceeds from asset sales threatens to push up India's fiscal deficit. This puts enormous pressure on DSP Merrill Lynch, Goldman Sachs and HSBC, which are co-ordinating the MTNL issue. With the pre-marketing exercise complete, MTNL is expected to be priced at the beginning of December.

By cutting the initial public offering portion of the GDR issue, the government was able to keep the size of its disinvestment untouched. But it is still vulnerable to demand, which will determine the price it gets for its shares. If MTNL is derailed altogether, India's stock markets will react sharply.

Even if MTNL goes according to plan, India is not out of the woods: attention will shift to the risk of a managed depreciation to help india's struggling exporters, and the chance of early elections. But an MTNL success would make it just about possible to bring Gail back to the market, say in March next year, in time for the end of the fiscal year. That could calm fears about government finances, and in time give a boost to those who keep faith with the Indian safe haven.

Krishna Guha

Indian IT groups eye Nasdaq listings

By Paul Taylor

Some of India's leading information technology companies are preparing to seek listings on the US-based Nasdaq exchange next year, reflecting the growing confidence of India's export-led software development industry.

Among those likely to seek a listing – usually through US subsidiaries – are HCL, the country's largest IT group, Wipro Infotec and Infosys Technology.

"We need to leverage our technology and project management skills," says N. R. Murthy, chairman of Infosys, which is expected to take a formal decision on a Nasdaq listing "within the next few weeks".

Among the main factors driving the rush to Wall Street are the growing need to be able to offer dollar-denominated stock options to help retain skilled staff, overseas acquisition plans and the companies' desire to raise their international profile.

"There is a strong move towards globalisation within the industry," says Dewang Mehta, executive director of the Delhi-based National Association of Software and Services Companies, who believes at least five Indian companies will list on Nasdaq in 1998.

According to the association, which represents the bulk of the country's 500 or so software companies, 104 Indian companies have established US subsidiaries in the past three years – many with a view towards a possible future listing.

Some, like HCL, are preparing to set up subsidiaries in offshore centres and use these as springboards for seeking Nasdaq listings.

"We plan to take this company for a listing on Nasdaq sometime next year," says Shiv Nadar, chairman of HCL. He sees Nasdaq as a possible source of funds to help him turn HCL into a global software group, both through organic growth and acquisitions, probably in the US.

Others, including several joint venture companies and Delhi-based IIS Infotech, are "considering [their] options". Similarly, Bangalore-based BFL Software is looking at introducing international employee share options as a way to reduce staff attrition rates, which are as high as 25 per cent in much of the industry.

Many young Indian software engineers leave to take up jobs paying ten times their Indian salaries in the US.

Nevertheless, India's offshore software development industry has grown rapidly in recent years, fuelled by the growing shortage of software professionals in the west and by India's large, skilled and relatively low-cost labour force.

India's software exports last year totalled more than $1bn – a figure which the National Association of Software and Services Companies expects to grow to $4bn by the end of the decade.

Sweet return: higher prices helped lift profits in the sector

Steep rise in profitability at India's sugar producers

By Kunal Bose in Calcutta

India's leading sugar companies reported sharply higher profits in the first half of the year. Analysts said that the 22 per cent fall in Indian sugar production to 12.8m tonnes in 1996-97 enabled the mills to bring down the inventory to "manageable levels" and realise 7 per cent higher prices in the open market.

The government, which distributes 40 per cent of India's sugar through ration shops with the rest being sold on the open market, had sanctioned higher prices for sugar, which also contributed to the profit rise. The groups forecast higher profits in the second half, which coincides with the busy crushing period from November to March.

Balrampur Chini Mills, the country's most profitable sugar group, surprised investors with a stronger-than-expected increase in profits. Pre-tax profits rose 66.65 per cent to Rs260m ($7.08m) on sales up 38.47 per cent to Rs1.38bn. Other income rose to Rs34m from Rs20.2m. Net profits were up 67.71 per cent to Rs166.7m after booking a loss of Rs12m on past investment. Earnings per share rose to Rs8.89 from Rs6.25.

Analysts say that the group, whose crushing capacity rose to 20,000 tonnes of cane a day following the acquisition of Babhnan Sugar, is poised to see net profits rise to nearly Rs400m in 1997-98 from Rs9.94 a year earlier. "This is because while the industry's output in the current season is set to fall 6.25 per cent to 12m tonnes, Balrampur Chini should be able to maintain production at least level with last year's 219,000 tonnes," said Mr Om Dhanuka, an industry analyst. "The group has one of the best sugar recovery rates from cane in the industry and there is no shortfall in cane in its command area."

Thiru Arooran Sugars posted pre-tax profits up 217 per cent to Rs193, even though sales fell 9.38 per cent to Rs630m. Expenditure fell 36.47 per cent to Rs450m. Earnings per share rose to Rs6.66 from Rs0.52.

KCP Sugar & Industries said pre-tax profits jumped 95.27 per cent to Rs89.65m. Sales rose 7 per cent to Rs992m. Net profits more than doubled to Rs49.97m. Earnings per share rose to Rs3.88 from Rs1.91.

Chancellor asked to state publicly that the current level of the pound is unrealistic

British Steel lobbies over sterling

By Peter Marsh

British Steel yesterday issued a fresh plea to the government to "talk down" the pound to reduce the impact on manufacturing. Sir Brian Moffat, chairman, said sterling's strength was the main factor behind a 45 per cent fall in first-half pre-tax profits to £143m ($241.7m).

Sir Brian said the Treasury had informed him that next year the pound was likely to start to fall, following its 23 per cent rise against a trade-weighted basket of currencies since August last year.

However, BS believes this might be too late to help the company, which made £1bn in profits in 1995-96. "God knows what will happen [to sterling] in the coming year," said Sir Brian.

He has written to Gordon Brown, the chancellor, asking him to state publicly that the pound at its current level of about DM2.9 is unrealistic. Sir Brian also criticised Mr Brown for failing to keep open the UK's options for joining a single currency before 2002 – which BS believes is unlikely to lead to the pound falling quickly to what it regards a "realistic" level of about DM2.55.

BS is also accelerating moves to cut costs, both through job losses and increasing efficiency among suppliers. Since April, 500 staff have been shed: a further 1,500 are expected to go by the end of next year. Employees total about 50,000, with 40,000 in the UK.

In the six months to September 27, BS saw sales drop 7 per cent to £3.4bn while earnings per share fell 45 per cent to 4.75p (8.58p). Deliveries in volume terms rose 4 per cent in the first half, while operating profits fell 4 per cent. The interim dividend is held at 3p.

The profits – at the top end of expectations – were described as "creditable" by Sir Brian. "Without the pound's rise, this would have been a good first half," he said.

Most of the company's steel plants are working at full capacity – a result of strong demand in the company's main markets in the UK and continental Europe.

Analysts estimate that the company's pre-tax figure will come in at £300m ($451m) this year, then staying at about £300m in 1998-99.

Sir Brian Moffat: a plea

Acquisition of Macmillan medical magazines and exhibitions

Emap purchase for £102m

By John Gapper, Media Editor

Emap, the publishing and radio group, yesterday announced the £102m ($172.4m) acquisition of medical magazines and exhibitions owned by Macmillan Magazines as part of an effort to reinforce strong growth in its consumer magazine arm.

Emap said it had agreed to pay £85m, plus an additional sum of up to £17.3m depending on performance, for three weekly and three monthly titles led by Nursing Times and Health Services Journal, and related conferences and exhibitions.

The group announced the deal along with interim results for the six months to September 30. Pre-tax profits, adjusted for the disposal of newspaper operations last year, increased by 27 per cent from £51.5m to £64m. Group turnover for continuing businesses rose 4 per cent to £376.1m ($361.7m).

Robin Miller, Emap's chief executive, *warned* that growth in second-half profits was likely to be weaker because the group had been gaining from an unusual combination of falling newsprint prices and strong advertising growth.

"We have been in a quite unique *situation where* advertising growth is growing strongly, and newsprint costs have declined. This has been a wonderful period, but it is coming to an end, and it may already have done so."

Mr Miller said the Macmillan magazines in effect replaced a group of 14 non-core titles sold last year to Quantum.

He said Emap expected to lose £15m this year in starting up new titles such as Red, a woman's magazine planned for the new year. It was using the current strength of trading conditions to reinforce current titles and create new ones.

Operating profits in UK consumer magazines led the results, with operating profits rising to £23.3m ($19.9m). Turnover in the division rose 22 per cent to £141m.

Mr Miller said Emap was considering further expansion into television.

The group continued to mull expansion into the US magazine market, but had *no immediate plans*. "America is a seductive place, and one needs to be cautious about anything seductive in my experience," Mr Miller said.

The shares closed 5p up at 906.5p.

Lydia van der Meer

Robin Miller: warned of second-half slowdown

Virgin set to launch internet sales service

By Paul Taylor

Richard Branson's Virgin Group plans to launch a range of electronic shopping services, *including compact* discs, books and financial products on the internet from January.

Virgin Megastores will be the first Virgin brand online selling CDs, videos, computer software and books – all at discount prices to those in the shops.

Mr Branson said yesterday that his travel companies and financial services would follow quickly enabling consumers to purchase rail and air tickets and manage their financial affairs online. "The internet electronic commerce revolution is *just around the corner*," he said.

"People will eventually be able to bank, invest, arrange a pension or life insurance and manage their mortgage online," he said, predicting that "banks as we know them, will very likely disappear".

The Virgin chairman was speaking at an event staged to mark the first anniversary of the launch of Virgin Net, the group's internet service provider which now has *almost 30,000 subscribers*.

Mr Branson acknowledged, however, that internet retailing "had to add" something. Goods or services sold over the net would have to be cheaper than those sold through physical outlets, raising the possibility that existing retail channels would be cannibalised.

He also announced the launch of measures to allay consumers fears about shopping at electronic malls. Virgin would launch a new service dubbed its "secure shopping guarantee" built *around a secure electronic* transaction (SET) standards.

Mr Clarke added that Virgin Net was considering marketing a set-top box costing about £200 ($338) and providing users with internet access through their televisions. The company was in *supply discussions* with "a number of companies".

NEWS DIGEST

Barclays cools on NatWest deal

Barclays is understood to have backed away from any thoughts it may once have had of pressing for a merger with National Westminster Bank, its principal UK rival. Both Andrew Buxton, Barclays chairman, and Martin Taylor, its chief executive, believe the competition obstacles to a merger are likely to ease once the European single market matures.

But the idea that the time is ripe, always a *faint* prospect, has come to be widely regarded as unrealistic. "I *suppose one* should never say never, but I don't think 'imminent' would be quite appropriate," mused one Barclays executive.

JP Morgan, the US-based investment bank, did some work for Barclays on the idea of a big domestic banking merger. But after a brief conversation several months ago between Mr Taylor and Derek Wanless, his opposite *number at NatWest*, the idea has gone no further.

The obstacles to a merger would be considerable. NatWest and Barclays combined would handle about 58 per cent of small and medium-sized business bank accounts in the UK. It would also have about 40 per cent of the UK's personal current accounts and the same percentage of its credit cards. It would also control more than 64 per cent of retailers' card payment processing.

With combined expenses of nearly £10bn ($16.9bn) last year, the two banks have enough overlap to offer a tantalising target for cost-cutting. *George Graham*

Racal considers options

Racal Electronics is considering several options for the future of its telecommunications and data management subsidiary *undergoing a strategic review*. These are understood to include a management buy-in and an alliance with Scottish Telecom, the telephone subsidiary of Scottish Power.

The MBI proposal is being led by Duncan Lewis, the former Granada and Mercury Communications executive, and backed by Schroder Ventures. The consortium is also understood to be interested in including the *Florida-based* data products division in its financing initiative.

Racal has been in the process of turning the lossmaking business round with the aim of eventually floating it on Nasdaq. The company said yesterday that an IPO remained an option.

Analysts have suggested a value of £400m-£500m for the telecoms arm, which last year made operating profits of £43m on sales of £260m.

● Racal yesterday announced a contract to supply battlefield radios to the Saudi Arabian army. The order would be worth "well in excess of £100m over the next 10 years." *Christopher Price*

ABF seeks Spillers clearance

Associated British Foods has applied to the Office of Fair Trading for clearance on a possible bid for Spillers, the flour milling business of Dalgety. Spillers is part of Dalgety's ingredients division, put up for sale along with *its US food distribution group in September*.

Garry Weston, ABF chairman, said this month he was interested in the ingredients division, which analysts expect to raise £250m-£300m for Dalgety. Spillers could raise £70m-£80m. Interest in the division is reported to be intense, with more than 40 companies asking for details. Potential bidders are said to include Kerry and Greencore of Ireland and Archer Daniels Midland of the US.

Deals mark change in attitudes on both sides of Russian border

By Chrystia Freeland in Moscow and Arkady Ostrovsky in London

Just a few years ago, Russian companies were often hostile to the west and seemed unable to cope with its way of business.

Western companies were equally aloof. Their fear of political instability and the often savage rules of Russia's young capitalism, meant that last year Peru attracted more direct foreign investment than Russia.

The deals between British Petroleum, Shell and their Russian partners mark a sharp change in attitudes on both sides of the Russian border.

"This is a seminal event and *a milestone for Russia* and its oil industry," said Stephen O'Sullivan, oil analyst at MC Securities. "Russia is seen as a politically and economically more stable country."

The two-fold signal of confidence comes at a particularly welcome time for Russia, which is still reeling from the international market turmoil which has sent many portfolio investors scurrying home and sharply depressed Russian shares.

Both Shell and BP have chosen powerful, but very different, partners. By virtue of its vast fossil fuel reserves, Gazprom, which less than 10 years ago was still a Soviet ministry, is the titan of the Russian economy.

Still dominated by its Soviet-era managers, Gazprom is often caricatured as a redoubt of crypto-communist *apparatchiks*.

But recently that accusation has begun to ring hollow, as Gazprom has sought to restructure itself and attract foreign capital, borrowing $9bn abroad over the past 12 months.

With Cidanco, BP has chosen a partner of a very different sort. Purchased in the much criticised shares-for-loans privatisation, it is the finest asset of Oneximbank, the most powerful of the financial industrial groups which have sprung up in Russia since the collapse of communism.

Vladimir Potanin, the head of Oneximbank, has emerged as the most savvy of Russia's young magnates, distinguishing himself from his rivals by realising early on that he needed to bring in western partners to restructure his holdings.

Cidanco itself is now run *by a former Shell executive*.

In their choice of partners, Shell and BP have automatically plunged into the fierce battle for political and economic power in the new Russia, a contest in which Gazprom and Oneximbank are fierce rivals.

Their animosity has an open political expression with Gazprom closely linked to Victor Chernomyrdin, the Russian *prime minister, and* Oneximbank seen as an ally of Anatoly Chubais, the embattled first deputy prime minister.

Over the next few months, these two new Russo-British partnerships will go head-to-head over the most precious piece of the *Russian patrimony* still left on the auction block: Rosneft, Russia's largest state-owned oil company.

Both teams have said they will bid for Rosneft, and the competition, which has come to dominate Russian political life, will be an early test of the relative might of these two new alliances.

Unigate chief warns of change

By Alison Maitland

The long-awaited consolidation in the dairy sector is likely to take place in the next year, Sir Ross Buckland, chief executive of Unigate, said yesterday.

Sir Ross was speaking after the food and distribution group reported a 9.6 per cent rise in interim profits before tax and exceptionals to £66.4m ($112m), at the top end of expectations. Turnover was virtually unchanged at £1.18bn.

He said the profitability of liquid milk sales to supermarkets remained inadequate, with too many sellers in the market.

Fierce competition forced Unigate to pass on most of the 2p per litre fall in the raw milk price in October. "The problem is not with the retailers, it's the idiocy of the manufacturers.

"We continue to believe that *industry consolidation* is needed in this area," he said.

However, he disagreed with the strategy of a unilateral demerger of the dairy business, a possibility being *talked about for Northern* Foods.

He said: "We don't see it adds value for shareholders."

Sir Ross said the board had ruled out a share buy-back, when asked what Unigate planned to do with its cash pile, which reached £169m at the end of the half year to September 30. This decision had the agreement *of shareholders, he added*. "We have concluded the opportunities in acquisition terms are such that we can invest that money wisely," he said.

Sir Ross also joined *condemnation of the recent* move into cheese processing by Milk Marque, the dominant milk supplier. He said it would be "highly appropriate" for the Office of Fair *Trading to take action* against the farmers' co-operative.

Earnings per share before exceptionals rose 10 per cent to 20.9p. The interim dividend is up 7 per cent at 7.5p. *Expectations are for full-year* profits of about £142m (£130m), giving a prospective multiple of 13.5. This discount to the market is unlikely to change much until Unigate's role in the *coming consolidation* of the dairy industry becomes clear.

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Adam & Harvey	6 mths to Sept 30	22.5	(24.2)	2.48	(2.55)	32.8	(34.6)	13.5‡	Jan 6	12.25	-	27
British Steel	6 mths to Sept 27	3,398	(3,651)	143	(262)	4.75	(8.58)	3	Jan 12	3	-	10
Diploma	Yr to Sept 30	257.5	(234.8)	21.6♥	(23.5)	24.9	(27)	10	Jan 9	10	14.5	14.5
Draw Scientific	6 mths to Sept 30	1.29	(1.21)	0.154L	(0.085L)	0.6L†	(0.35L)	-	-	-	-	-
Emap	6 mths to Sept 30	376.1	(389.3)	64.5	(164.1♥)	20.4	(57.7)	4.95	Jan 9	4.3	-	13
FirstBus	6 mths to Sept 30	363.4	(246.8)	30♠	(23.5♠)	7.3†	(9.4)	2.2	Feb 18	1.8	-	5.5
Grantchester	Yr to Sept 30	11.5	(2.91)	3.69	(0.026)	3.34†	(0.58L)	1	Jan 5	-	-	-
600 Group	6 mths to Sept 30	65.4	(67.2)	3.78	(30.4♥)	5.1†	(35)	1.5	-	1.5	-	5
Tex Holdings	6 mths to Sept 30	15.1	(12)	1.45	(0.85)	16	(6.9)	4	Jan 23	2	-	5
Unigate	6 mths to Sept 30	1,175	(1,188)	67.4♥	(60.6)	21.3†	(19)	7.5	Jan 5	7	-	20.2
Whitecroft	6 mths to Sept 30	73.2	(74)	2.3	(2.71)	3.7	(4.4)	1.75	Jan 26	1.75	-	5
Workspace	6 mths to Sept 30	9.76	(8.06)	2.51	(2.26)	12.5	(11.4)	5	Feb 2	4.5	-	15

Investment Trusts		NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Finsbury	6 mths to Sept 30	280.3	(235.2)	0.677	(0.86)	2.8	(2.8)	1.7	Dec 16	1.7	-	3.9
F&C Eurotrust	Yr to Sept 30 ★	400.78	(307.36)	1.09	(1.47)	1.75	(2.35)	1.6‡	Dec 23	1.6	1.6	1.6
F&C German	6 mths to Sept 30	217.01	(174.97)	0.395	(0.4)	1	(1.02)	-	-	-	-	0.75‡
MCIT 1986 Fund	6 mths to Sept 30	469.3	(462.9§)	2.28	(1.69)	15.23	(11.27)	9.5	Dec 18	9	-	16.5
MCIT 1995 Fund	6 mths to Sept 30	51.6	(50.3§)	2.19	(1.73)	3.37	(2.66)	2.5	Dec 18	2.25	-	4.25
Mercury Euro Priv	6 mths to Sept 30	177.04	(129.43)	14.8	(14.3)	2.87	(2.67)	0.65	Jan 7	0.6	-	2.2
Pennine Aim VCT	5 mths to Aug 31	98.3	(-)	0.035	(-)	0.8	(-)	-	-	-	-	-

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ♠After exceptional charge. ♥After exceptional credit. †On increased capital. φAim stock. ‡Foreign income dividend. ★Comparatives restated. §At March 31 1997.

هكذا من الاصل

NORTH AMERICAN BUSINESS LOCATIONS

Tax breaks to draw inward investors are part of an arsenal used by rival regions, says **Richard Waters**

Competing to gain the greater share

Against a background of intense competition between US states, the case of Mercedes Benz has become something of a cause celebre in economic development circles - an example of both the big gains that can flow from inward investment, as well as the huge financial and political costs.

Until this summer, it was the costs that were most apparent. In bidding to become the home for the German company's first overseas manufacturing plant, Alabama - not known for its engineering prowess - paid a steep price. Economic development agencies around the country still point to the $253m of tax breaks associated with this deal as a high-water mark in the annals of state aid.

In recent weeks, Alabama's taxpayers have considered the results of their largesse. Mercedes' first sport utility vehicle rolled off the production line in Vance this summer to an adoring public. It has become the latest "hot" vehicle among American 40-somethings - an echo, in fact, of the experience of BMW's first roadster when it emerged from that company's South Carolina plant last year.

The Mercedes case illustrates three things about the US in the late 1990s.

One is that the country has leapt back into contention as a manufacturing location. Productivity growth in manufacturing industry has been running at a moderate, if hardly spectacular, rate of just over 2 per cent a year. But the long slide of the dollar – though partly reversed recently – has contributed to making the US a low-cost manufacturing base.

At the same time, investments by companies like Mercedes and BMW have demonstrated a new confidence in American manufacturing quality – a far cry from the early 1980s, when the country had fallen far behind German or Japanese rivals in this regard. Longer-established automobile plants still lag in terms of quality and productivity, but the gap is narrowing.

The revival of US competitiveness has shown up in most international attempts to assess the relative economic strengths of nations. The World Economic Forum's latest annual world competitiveness report, for instance, puts the US behind only Hong Kong and Singapore when ranked on its ability to generate wealth in world markets.

The second message from Mercedes' experience is that the US has provided a vibrant domestic market at a time when most other developed economies have been stuck in a rut. While Europe's automobile industry faces excess capacity, new vehicle sales in the US have been humming along at a steady pace.

The size and openness of the economy has drawn a steadily rising flow of foreign direct investment to the country, an area in which the US tops all other nations.

The third lesson from Alabama is that the pattern of regional economic development is no longer as predictable as it once was. States across the south have scored some of the more notable victories in securing new investment in the automotive industry in recent years: but the midwest has shaken off its "rust belt" image to win some big new investments of its own, belying the notion that its unionised workforce and higher cost base has undermined its competitiveness.

The most notable example this year has been Chrysler's decision to build a new $1.2bn Jeep plant on the site of an existing, ramshackle one in Toledo, Ohio - though only after concessions from the local United Autoworkers union, which has agreed to a more flexible labour contract which would allow the company to impose mandatory overtime.

If new car or steel plants can seemingly spring up anywhere, the same is true of other industries. The rapid growth of the high technology industry, which has contributed to US economic growth to a disproportionate degree in the 1990s, has forced manufacturers to look beyond their traditional centres of production to develop new pools of workers, whether for microchips (three recent projects in Virginia) or computer networking equipment (a 3Com plant just announced in Illinois.)

In a country where the unemployment rate has fallen to 4.7 per cent, labour considerations have become a crucial factor in deciding where to place a business.

"It is becoming more difficult to find an area with an untapped labour force," says Larry Moretti of Fantus Consulting, the relocation consulting arm of Deloitte & Touche.

One result of that has been a narrowing of the regional differentials between items such as labour and housing costs, he adds.

The generally high employment levels around the country do not tell the full story. Many states are still fighting to replace lower-paying jobs – which they may be in danger of losing eventually – with the sort of employment that can support a higher standard of living. What jobs remain in industries such as textiles look more fragile than ever: in recent weeks, both Levi Strauss and Fruit of the Loom have announced the closure of US plants, mainly in southern states.

Meanwhile, the country's tight labour market has helped to make job training one of the incentives in the battle to attract investment.

Financial inducements remain high. The new Chrysler plant, which will employ around 4,500, attracted $222m in city and state tax benefits – though the capital investment and number of jobs involved are far larger than those linked to the Mercedes plant in Alabama.

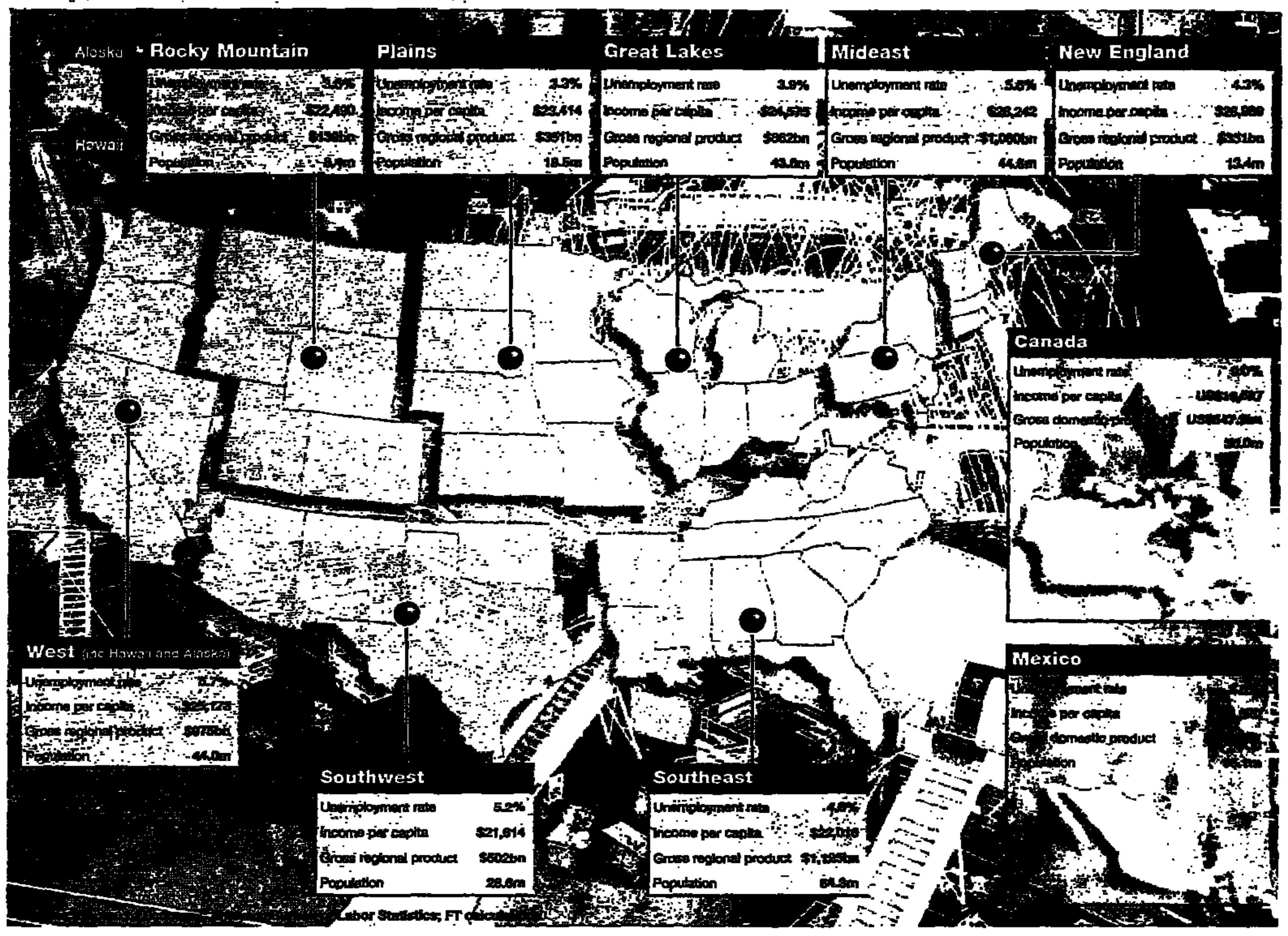
Other types of incentive have become just as important. Wayne Sterling, head of economic development in Virginia, says one of the most attractive to employers is the willingness of a state to train potential workers before the new investment is even made, assuring the incoming company of a pool of talent.

That, in turn, points to one of the issues which most concerns employers in the US: that while the level of university education is generally high, too may children emerge at an earlier stage from the school system ill-equipped for work. The Council on Competitiveness, a body established in the mid-1980s to assess American international competitiveness, listed the poor returns from the country's spending on education as an area in which it remains vulnerable. The verbal and mathematical aptitude of children finishing high school remains below the levels reached in the 1960s and 1970s, despite some improvement in the 1990s.

On some other measures of social achievement, the US now scores far higher than ever. Among the most remarkable has been the reversal, in a number of cities, of the slide that had threatened to drive business away from their downtown areas for good. Crime levels are down nationally, and vacancy rates in some of the more chronically depressed office markets have lifted.

For hollowed-out cities like Detroit, reversing the long spiral of inner city deprivation may simply prove too big a task. But others, from Baltimore to Cleveland, have built a revival by using new civic projects as anchors to attract residents and businesses back from the suburbs.

The latest symbol of this reversal is New York, once famous for its decaying infrastructure and spiralling crime problem. The Big Apple is now America's Most Improved City, according to a study by Arthur Andersen and Fortune, thanks to its "cleaner streets, lower crime rates and shiny storefronts," building new self-confidence.



CANADA • by Scott Morrison in Toronto

Tax and currency advantages

The 'true north' is one of the most competitive locations for R&D facilities

When Pasteur Merieux Connaught, the world's largest vaccine manufacturer, announced this year it was investing C$350m in a Canadian-based initiative to develop a cancer vaccine, the French company said it was heavily influenced by federal government incentives.

The project, involving research centres, universities, hospitals and medium-sized biotechnology companies across Canada, will benefit from a C$60m repayable investment from the federal government's Technology Partnerships program. The research and development incentive is one of many available to corporations which are rapidly discovering the attractiveness of Canada as a location for R&D operations.

The government of Jean Chretien, the prime minister, has stressed that preparing for – and attracting investment in – innovative, knowledge-intensive industries is crucial to the country maintaining its competitiveness in the global economy.

To further that end, the federal government offers 100 per cent deductibility of current expenses and most capital R&D expenses, as well as a refundable tax credit ranging from between 20-30 per cent of research and development expenditures. These incentives, as well as other federal and provincial programmes, have made Canada one of the most competitive countries in which to establish a R&D facility, according to the OECD.

Stuart MacKay, a partner at KPMG Canada, said corporations taking advantage of available R&D incentives could end up paying as little as one to two per cent in taxes.

Canada's cost advantage, however, is not limited to R&D intensive industries, according to a recent KPMG study. It found the cost of doing business in capital-intensive industries is also cheaper in Canada than in the US and five western European nations.

The study looked at the cost to a medium-sized enterprise of establishing a green fields facility on a five- to 10-acre site in a suburban area zoned for light- to medium-sized industrial activity. It discovered that the 14 least expensive cities in the 42-city study were Canadian, with the four cheapest sites being St John's, Halifax, Charlottetown and Moncton, all in Atlantic provinces.

Nationally, Canadian costs were 5.4 per cent less than in the US and 11.8 per cent less than Germany, when calculating the 10-year average of expenditures, including initial investment, labour and telecommunication costs as well as interest and depreciation charges and tax rates.

Contrary to the notion that Canada is a high-tax jurisdiction, the country's corporate tax burden was lower than in the US, Italy, Germany, the UK and France.

Since embracing freer trade through the bilateral agreement with the US and the signing of the North American Free Trade Agreement, Canada has seen foreign direct investment jump from C$123bn in 1989 to C$180bn last year.

Manitoba, Ontario, Quebec, New Brunswick, Nova Scotia and Newfoundland all offer technological innovation tax benefits and some provinces, including New Brunswick and Nova Scotia, offer generous deals to investors who set up operations in their borders.

Business sources say Quebec, in particular, has aggressively wooed investors by offering additional tax holidays and capital subsidies to secure investments that might otherwise have gone elsewhere to avoid the province's political instability.

Despite an increasingly competitive attitude among provincial governments, consultants say they are still much less aggressive than their US counterparts. "We're almost too modest about how good we are when it comes to attracting investment," says Stuart MacKay, a partner at KPMG Canada and co-author of the study.

Most provinces have established themselves in niche markets.

Ontario remains the country's manufacturing centre, anchored by the big three auto-makers around Toronto and a high technology corridor in the Ottawa valley. Alberta's business-friendly government and its heavy oil reserves have sparked an unprecedented investment wave. Frank McKenna, the New Brunswick premier who recently announced his resignation, was highly successful in convincing corporations to establish call centres in his Atlantic province

Prospects for growth in Newfoundland, Canada's most depressed province, have never been greater due to two huge projects: Inco's vast Voisey's Bay nickel deposit and the Hibernia oil platform, the first of several planned offshore production facilities.

At the other end of the spectrum, the British Columbia government has failed to impress business leaders, who complain that Glen Clark, the premier, has backed policies unfavourable to mining and forest products companies, the traditional linchpins of the province's economy. Mr Clark has activity promoted the province as a high tech centre and location for Hollywood film makers.

Canada's competitiveness is closely linked to the value of its currency. Mr MacKay said Canada's cities will remain cost effective for investment as long as the dollar stays below 83 US cents.

Currently worth about 71 US cents, the Canadian dollar is considered to be undervalued and the Bank of Canada expects the currency to appreciate. Economists, however, forecast it will remain under 81 US cents during the next five years, suggesting that Canadian cities, particularily on the east coast, will be preferred business locations for years to come.

Inco's Voisey's Bay mine in Newfoundland will produce 13 per cent of the world's nickel Andrew Vaughan/AP

MEXICO • by Leslie Crawford in Mexico City

A springboard to the US

Record inward investment has encouraged the country to cut red tape

Judging by the record levels of foreign direct investment Mexico has received this year – $11bn, according to the Finance Ministry – the country has never been more attractive as a business base.

Membership of the North American Free Trade Agreement (Nafta) has enticed many Asian and European multinationals to use Mexico as a springboard for exporting to the US. The deregulation of banking and telecommunications services has attracted many foreign participants, while the new competitive environment encourages improved services and lower costs.

Railroads, ports and airports are being privatised in the hope that private capital will bring much-needed improvements to Mexico's creaking infrastructure.

Since the 1995 peso crisis, which unleashed a devastating recession, Mexico has redoubled its efforts to attract foreign investment. This is true both at the federal level, where President Ernesto Zedillo's administration has relaxed restrictions on foreign investment, and at the state and municipal level, where local governments compete to attract new businesses (and therefore jobs) to their regions.

According to the Trade and Industry Ministry, there are 250 industrial parks in the country – half of them located in the six states along the 2,000-mile border with the US. They are the home of Mexico's booming maquiladora industry, assembly operations which import components duty free and pay export taxes only on the value added.

Throughout 1997, new maquiladoras are starting up at the rate of 50 a month. Herminio Blanco, trade and industry minister, estimates there are now more than 3,200 maquiladoras in the country. They employ almost 1m people, export $40bn a year, and cover a broad swathe of manufacturing activities.

The chief attraction of such exporting concerns are Mexican wages, always low and now depressed further in dollar terms by the devaluation. The average daily wage of maquiladora workers this year was 105 pesos ($13), only one-tenth of the average manufacturing wage in the US.

The border region continues to attract the greatest number of new export-oriented operations. Increasingly, however, foreign companies are showing more interest in locating in the interior of the country, where both wages and worker turnover are lower.

Small states such as Aguascalientes, Guanajuato, Querétaro and San Luis Potosí in central Mexico are earning reputations as havens of good government and, therefore, magnets for foreign investment.

Aguascalientes has attracted more than 150 new corporations in the past five years, including big employers such as Nissan, Xerox and Levi's. The state, with a population of less than 900,000, received almost $90m in new investment last year and its workplaces exported over $1.4bn. The state investment board scans the Internet for export opportunities and sends local businessmen on foreign trade missions.

When Yamakawa, a subsidiary of the carmaker Nissan, decided to locate in Aguascalientes, the state built a new industrial park for the Japanese newcomer in 56 days.

In Querétaro, the state government recently promoted the construction of 10 industrial parks, creating an important industrial corridor less than three hours from Mexico City.

Even in Mexico City's Federal District, the local administration announced plans to invest $1.5bn to develop 124 urban and industrial projects over the next four years. The development of Finsa-Iztapalapa, a privately-managed ecological-industrial project, is already under way.

Since October, the Federal District has also operated a "fast-track" licensing system for new businesses. If health or environmental permits are not required, the local administration pledges to complete the paperwork within seven working days. Where health or environmental permits are required, the wait is 21 working days.

The new system promises to be a huge bonus for new companies locating in Mexico City. In the past, the American Chamber of Commerce estimates, it regularly took more than 90 days for a new company to navigate through the municipal, state and federal paperwork.

Equally important has been President Zedillo's efforts to cut red tape. An economic deregulation council, set up in 1995, has reviewed more than 700 business formalities required by the trade, foreign, health and environment ministries, and struck off 261 of the sometimes tedious, sometimes overlapping formalities from the statute books.

An inventory of all federal business formalities is now available on the internet (www.cde.gob.mx).

Where President Zedillo's administration has been found wanting is in the absence of initiatives to streamline Mexico's byzantine legal system.

"It is often difficult to make your legal rights stand in a Mexican court," says Gordon Lee, a technical partner at Price Waterhouse. According to Mr Lee, the ease with which contracts can be reneged remains a hindrance to doing business in Mexico.

Corruption, often stemming from the discretionary powers of civil servants, is another often heard complaint among both foreign and local businessmen.

In an investment survey conducted by the American Chamber of Commerce, respondents said the government should reduce opportunities for corruption. The survey concluded: "Corruption increases the costs and complications of doing business."

The American Chamber of Commerce also warns, in its Guide to Mexico for Business*, of the rigidity of Mexico's labour code.

"If you are planning to hire Mexican workers," the guide says, "you must be prepared to deal with labour unions. They are an important and highly politicised component of the labour market."

*The Guide to Mexico for Business, published by the American Chamber of Commerce, Lucerna 78, Colonia Juarez, Mexico DF 06600. tel: 525 7032911.

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US REGIONAL EXPANSION • by Gerard Baker in Washington

Wheel to wheel along the economic cycle path

States are moving ahead together but they may also share the next downturn

East coast or west coast, frozen north or deep south, all regions of the US are enjoying the sustained economic expansion of the 1990s that shows no sign of slowing down.

In the past, the diverse nature of the US economy meant that, even after a long expansion, there was usually one region of the country that was lagging. But this time, there is a neat synchronisation about the US that has created demand and employment growth just about everywhere.

"The forces that created asynchronous regional business cycles over the last three decades – volatile energy prices, real estate speculation, banking failures, exchange rate swings and military conflicts – are missing or tempered in the mid-1990s," says Sara Johnson, chief regional economist at DRI McGraw Hill, an economic consultancy.

Though this synchronisation is seen by most economists as a blessing in time of plenty, such as today, there are concerns that when the slowdown eventually arrives, it may have a depressing effect on the economy – as weakness in one region is reinforced by weakness in another.

But for the time being Americans across the continent can enjoy the economic success. Mark Zandi, chief economist of Regional Financial Associates, another consultancy, points out that more than two-thirds of the 315 largest metropolitan areas in the country now have unemployment rates below 5 per cent – the highest proportion in more than 20 years. The variability between states in rates of job growth is at its smallest in more than 30 years. In the last five years, only one state – Hawaii – has recorded a decline in employment (and a very small one, at that). This growth is virtually unprecedented in the post-war period.

The principal reason, most economists believe, is a much greater geographical mobility among businesses. Regions now look a lot more like each other than they have for many years. In place of the heavy concentrations of business by industrial sector – heavy manufacturing in the midwest; farming in the great plains, defence industries on the west coast, all regions are now much more mixed industrially than they have ever been.

A number of factors explain this greater geographical homogenisation of America:

● **Growth of high technology** In the past, it mattered to a company much more that they be close to their customers, suppliers, in large metropolitan areas. Today, with an increasing amount of business transacted remotely, the need for proximity is much smaller. As these trends intensify through the growth of electronic commerce in the next ten years or so, regional differences will shrink further.

● **Expanding trade** The growth of international trade has been significant in the US economy in the last decade. The proportion of economic activity accounted for by trade has nearly doubled to over 25 per cent in the last two decades. This has meant that all regions have increasingly had one thing at least in common - they could rely much more on exports to take up slack in their region during economic downturns. This is likely to continue as business becomes more internationally-oriented.

● **Deregulation** Liberalisation of a range of industries in the last 15 years has made it much easier for companies to enter each other's turf. Instead of the old pattern of large companies serving one region, there has been substantial growth of the genuinely national company – especially in the heavily regulated utilities sector. Deregulation has also helped to equalise costs between regions. As Ms Johnson of DRI McGraw Hill argues, over the next 10 years, deregulation is expected to lower electricity costs in New England towards the national average, eliminating the heavy cost premium businesses face in doing business in the area.

In addition to these elements, she adds, all the destabilising influences on growth that affected regions in different ways in the past, are missing this time around. In the late 1980s, for example, a slump in property market values hit financial institutions in the north east, Texas and big cities elsewhere, but left other parts of the country largely unscathed. Today, while some parts of the country have experienced more of a real estate boom than others, the contrasts are less stark.

Differences have not been eliminated entirely of course. There is still a number of regional disparities.

Perhaps the most important is the tax system. Regional variations in the corporate tax burden still differ sharply - and in some areas, the gap is widening. Companies often cite more favourable tax treatment as a reason for relocating to another part of the country.

Labour market conditions also vary between regions. Bert Ely, of Ely and Company, an independent economic consultancy, argues that, while employment growth has been strong across the country, unemployment rates still vary quite widely. "There is still some shifting room within the US labour supply through a combination of workers moving to low employment areas, as well as labour demand shifting to pockets of unemployment."

Overall, the nationwide balance now seems well established. So far it seems to have produced only benefits. Self-reinforcing regional growth patterns may have sustained the expansion. The problems will come when the economy slows. In the past, the existence of sharp divergences between regions meant weaknesses in one were compensated by strength elsewhere. If all regions are now moving to roughly the same business cycle, recessions as well as expansions may be self-perpetuating. The phenomenon of the rolling recovery, along with the rolling recession, may be a thing of the past.

THE LABOUR MARKET • by Nikki Tait in Chicago

Skilled are in short supply

New jobs are more than compensating for losses through downsizing

A recent glance around corporate America would seem to suggest that "downsizing" is alive and well. Over the past few weeks, companies ranging from Eastman Kodak to the Fruit of the Loom garment manufacturing group have laid off thousands of workers in the name of internal efficiencies.

Conversely, though, labour markets have rarely been so tight. Unemployment at a national level stands at 4.7 per cent, the lowest mark for 24 years. Politicians proudly boast that 13.5m jobs have been added in the past four years. In some pockets of the country – such as parts of Indiana or Wisconsin – the jobless rate is estimated to be under 2 per cent.

For all the headlines, the "downsizing" trend does seem to be on the wane, and well outstripped by job creation. According to a recent survey by the American Management Association (AMA), the percentage of companies surveyed who reported a net decrease in workforce in the 12 months to end-June was 19 per cent, down from 28 per cent in the previous period.

There is a regional pattern to this. Broadly speaking, unemployment remains higher on the west coast, at around 5.5 per cent, and in the north-east, it remains only a shade lower at a little over 5 per cent. In the southern states the figure is a shade lower. In the midwest, the unemployment has remained below four per cent since May.

But even these regional figures should be treated with a degree of caution.

Many unemployed workers have found new jobs *Charles Osgood/AP*

Wisconsin, for example, is often cited as one of the tightest situations. Yet, according to August figures from the Bureau of Labor Statistics, the jobless rate ranged from as little as 1.9 per cent in Racine, just across the Illinois border, to close to around 5 per cent in Wausau a hundred miles away.

The pattern of job shortages by type of occupation is equally complicated. National surveys tend to suggest that demand is particularly high for skilled manpower. The same AMA survey, released in late October, found that more than half the respondents thought that skilled labour was in short supply. Salaried professionals and technicians took about 22 per cent of the newly-created jobs, compared with 16 per cent for managers and supervisors.

A recent study by the Maryland Department of Business and Economic Development came to similar conclusions on a narrower regional basis. About 57 per cent of firms hiring from high vocational educational programmes found difficulty in finding qualified applicants.

Yet, at a corporate level, many firms also report problems finding adequate "blue collar" resources. UPS, the large delivery company, which depends on substantial local pools of unskilled labour to handle sorting work, is a case in point, employing former welfare recipients long before such practices became fashionable or politically-encouraged. Its large Chicago hub even offers high school students the possibility of combining part-time work with on-site study facilities.

But, while the nation's bankers and economists remain sensitive to the potential inflationary consequences of this situation, there are few signs that labour shortages are driving up wage rates. Organised labour has pitched a few battles – for example, the autoworkers and General Motors, and, most prominently, the Teamsters and UPS.

Yet settlements – from Chrysler to Navistar – have usually been reached, with the desire to preserve US-based jobs outweighing the quest for escalating wage rates.

The impact which these trends are having on corporate relocations is more difficult to discern. Certainly, at an anecdotal level, there are some signs that labour constraints may be a factor in firms' investment decision-making. Areas where labour is particularly tight may also be seeing growth checked as a result: in September, for example, the Chicago Federal Reserve Bank found that the midwest manufacturing sector grew less strongly than that of the nation overall.

"A number of industries in the midwest are being hampered in their ability to expand production due to the lack of available workers," it suggested. "Since May, the midwest has had unemployment rates below 4 per cent. These tight labour markets make finding qualified workers difficult."

Still, the point is already well-recognised. Taking the midwest auto industry as just one example, economists point out that the industry was once centred in Michigan, which accounted for 80 per cent of production. This figure then slumped to around 40 per cent, as carmakers saw the sense in shipping parts to plants elsewhere, only to rebuild as the efficiencies of concentrated production become evident over the past fifteen years.

Rising labour costs could re-establish the outflow trend – even if the jobs, this time around, head outside the US, to Mexico or even other parts of Latin America. That thought has kept the lid on labour costs, and preventing some labour market rigidities. Whether it can adequately address the issue of labour shortages is another matter.

Seeing the future: the growth of high technology industries has meant a burgeoning of companies located in remote regions. Due to this development, regional differences should shrink in the next decade *Glyn Genin*

RESEARCH PARKS • by Richard Waters in New York

Academic frustrations

Income-seeking universities have saturated the market with developments

It certainly seemed a good idea at the time. During the 1980s, faced with the prospect of declining support from public funds, universities across the US alighted on the same idea for generating extra income: set aside a tract of unused land as a new research park, and use the institution's own research base as a lure to attract technology-reliant companies as tenants.

Successful developments like Stanford Research Park in California, opened in 1951, or Research Triangle Park in North Carolina, dating from 1959, seemed to indicate a future where academia and commerce could fruitfully coexist. The visionaries were aided by economic development agencies which adopted this as the latest way to bring investment and jobs to their regions.

The result was an explosion in the number of research parks. In 1980, there were some 20 such sites in North America, according to the Association of University Related Research Parks (AURRP). Now there are more than 150, with 136 of them in the US. With expansion on that scale, it is hardly surprising that many of these ventures have failed to develop into the hot-beds of technological development that their founders had hoped – or that research parks, in general, are now going through a period in which over-ambitious development plans are being adjusted to reality.

This is an experience that other countries are likely to go through in due course. The boom in research parks, which took hold in the US in the early 1980s, spread elsewhere somewhat later. (There are 238 such developments in other countries, according to the AURRP.) The US is unlikely to be alone in seeing over-expansion give way to a period of consolidation.

There have been a number of consequences from this era of rapid growth.

One is that local economic development agencies no longer trumpet the presence of a research park as one of their prime assets. "I sense that they are not seen as the anchors for development that they once were," says Larry Moretti, a senior manager at Fantus Consulting, the relocation consulting arm of Deloitte & Touche.

Another result is that parks have invested more in trying to differentiate themselves – a necessary adjustment to a competitive marketplace. Take Maui Research and Technology Park in Hawaii, which has attracted 315 jobs in the first five years of its existence.

The park hopes to use spare capacity on its supercomputer, placed on the island courtesy of the Federal defence budget, as a lure. It is also trying to turn its isolation from the US to advantage: perched out in the Pacific, this is a "strategic business location" for companies looking towards Asia but wanting to keep their research and development activities on US soil, says Arthur Garner, director of business development. The park is trying to attract its first large commercial tenant, much as a shopping mall uses an "anchor" retailer. For those parks with a long track-record, on the other hand, success has fed on itself. The existence of an established labour pool draws new research-based activities to the area, and that in turn attracts more skilled people.

Cisco Systems, the biggest maker of data networking equipment, decided four years ago that it was in danger of outgrowing the pool of skilled labour in its native Silicon Valley, says Selby Willman, senior vice president for marketing. It picked Research Triangle Park as a place to develop a new source of talent on the east coast. "We can attract people all the way from Boston to Miami," he says.

Longevity also helps in providing a pool of companies from which the would-be entrepreneurs of the future can emerge. Cummings Research Park, in northern Alabama, owes its existence to the Nasa space programmes of the 1950s and 1960s. The scaling back of these programmes released a wave of engineers, many of whom went on to start businesses in the area, says Bill Dean, the park's director.

Established parks like these now want to reduce their reliance on a narrow range of research-driven activities. "Our challenge is to continue to balance that, just like an investment portfolio," says Mr Deans.

In turn, Research Triangle has long been a centre for biotechnology and healthcare, with 60 per cent of its activity still accounted for by this sector, estimates Mr Willman at Cisco. That has made companies involved in communications-related work – like Cisco itself – among the most sought-after by research parks across the country.

The growth of recent years has brought its own problems for the most successful parks. Surprisingly, perhaps, a shortage of labour does not normally appear to be one of these. While the unemployment rate in the area around Research Triangle is low, says James Roberson, the park's director, skilled workers have been drawn into the area with relative ease to feed demand – a pattern echoed at other parks.

The next phase of development will bring other strains. Research Triangle is planning a new rail link to ease the traffic congestion that has come with success. Also, says Mr Wellman, the lack of active venture capitalists in the area has left a shortage of ready finance that the park's new entrepreneurs need to get started.

CALIFORNIA AND THE WEST • by Christopher Parkes in Los Angeles

Rivalries within and without

Local leaders accept the need for a more orderly approach to growth

"We have seen the enemy, and it is us." This abrupt assessment of the single biggest obstacle to persuading companies to relocate to Los Angeles County, one of the fastest-growing regions in the US, came recently from Regina Birdsell, director of the New Los Angeles Marketing Partnership.

She was announcing a grand "economic summit" at which the county's municipal leaders were to meet to draft a cohesive economic development plan with the aim of recouping the remaining 250,000 of the 500,000 jobs lost to recession and aerospace restructuring.

"We should not compete against ourselves but against poachers from other cities like Denver, Phoenix, Dallas, Las Vegas and Seattle," she said.

She might have added the four other counties, all fiercely independent and competitive, which comprise southern California, and which contribute to an economy bigger than that of the Netherlands.

But LA's 88 separate cities, each with its own planning and business licensing regulations, make for confusion enough: even as urban planners urge more co-operation and even revenue-sharing, local secessionists are agitating for the San Fernando Valley's separation from Los Angeles itself, and the creation of yet another municipal government.

Although the region is sharing in the extraordinary resurgence of the Californian economy, now in its third year, the summit meeting marked acceptance of the need for a more orderly approach to growth.

Earthquakes, floods, civil unrest, recession and mergers have cost California dearly in the past five years. Dozens of companies have uprooted themselves and moved to lower-cost bases throughout the west. Important expansions in industries ranging from semiconductor manufacture to animated film-making, have taken place in Arizona, Utah and New Mexico, which serve increasingly as an extended "workbench" for industries serving the massive Californian economy and its thriving ports.

Disruption also led to the first reversal of the long-term net immigration into the Golden State from elsewhere in the US. After peaking in 1994, when 82,000 left the state, the exodus has stopped this year, and the population is expected to grow by 15m in the next 25 years.

This will present further challenges to state and local governments seeking to attract new investment to reinforce the small businesses which have underpinned recovery so far.

According to the Center for the Continuing Study of the Californian Economy, the transport and educational infrastructure require special attention and investment "to keep pace with the numerical [population] growth and competitive demands of the state's economy".

Los Angeles itself, was recently named as the most congested city in the US with San Francisco, San Diego and San Bernardino valley area close to LA also included in the top 10.

Pressure is also being keenly felt in Silicon Valley, where congestion is reaching critical levels. Economists at the University of California, Los Angeles, see no threat to the valley's role as a high-technology hub, but they warned recently that crowding and high costs are likely to drive some manufacturing to relocate.

While political leaders tout Californian cities such as Fresno, Bakersfield and Sacramento as the most likely beneficiaries, Arizona and Utah have made it their business to attract such work. With relatively cheap housing, uncrowded cities and newly-installed metropolitan freeway networks, they have enhanced their appeal to people moving west.

And even though California's enviable climate and outdoor lifestyle still exert a considerable pull at the personal level, corporate migrants detect definable advantages elsewhere in the region.

In surveys of business opinion, cities such as Seattle, Salt Lake and Phoenix regularly emerge among the most desirable, liveable, businesslike, and affordable cities in the US. Increasingly they garner accolades for high educational standards, quality of life and other desirable features which were commonly viewed as the preserve of California.

And yet the state still shows up well in even the most partisan assessments of *relative merits. Average* hourly earnings in manufacturing are only marginally higher than pay rates in surrounding states. LA's industrial building costs are the lowest in the region. In terms of major crime, a commonly quoted disincentive to investment, Arizona has higher levels than California, where the 1995 rate of 5,457 offences per 100,000 inhabitants was almost matched by Nevada and New Mexico with 5,180 and 5,226 respectively.

It under-performs the rest, however, in terms of living costs, and LA prices for electricity and gas for industrial customers are significantly higher than in other large western cities.

But as the LA County summit suggests, the state's disadvantages are being addressed. It is setting the US pace in the deregulation of electricity supply, for example, and starting next year most industrial users expect bills to drop sharply.

Traffic congestion is being addressed in Los Angeles through the biggest mass transit project in the nation, which embraces a subway system, light rail and freeway improvements. Port traffic is being eased by the construction of the Alameda Corridor, linking Long Beach and Los Angeles harbours to rail and freeway systems.

At the bottom line, with its critical mass in the entertainment, information technology, aerospace and trade sectors, California runs no near-term risk of erosion of its role as the west's economic engine.

But some tuning is required. Its university system is still one of the finest in the world, but elementary schooling is lagging despite a concerted drive to reduce class sizes. Transport issues and the inadequate housing stock are also being addressed, yet reforms and progress are often slowed or obscured by territorial politicking at every level of government.

LA's summit participants have acknowledged the enemy. Whether they can *deal with it effectively* is another matter.

The city of wrangles: there are warnings that crowding and costs could drive some businesses away from Los Angeles

PROFILE Times Square

Big Apple's core boosted

The once ailing landmark is now a symbol of a new confidence

Just a few short years ago, Times Square was probably one of the least attractive places to base the US headquarters of a multinational corporation. Dirty and sordid, the area was known for sex shows rather than big business. In its efforts to turn the area around, New York's city government has now earmarked some of its most generous property tax concessions for businesses willing to give Times Square a go.

The redevelopment in the square itself, and along 42nd Street, has become the most conspicuous symbol of the new self-confidence that has gripped the Big Apple after a belated economic rebound from the slump of the early 1990s.

The latest company to pick Times Square as a base is Reuters, the UK-based information group. Reuters announced plans last month for a new 855,000 sq ft, 32-story tower on one of the most prominent development sites in the square.

It will be one of the first new buildings to go up in a city that has been starved of new office construction since the real estate debacle of the early 1990s. However, it will be dwarfed by Times Square's other projected new arrival — a 1.5m sq ft tower that will be home to Conde Nast, the publisher, and Skadden Arps Slate Meagher & Flom, the law firm.

Tax concessions from the city and state played a large part in the decision, say Reuters executives. Stamford, Connecticut — the most likely alternative, had the company opted to leave New York — would have been around $10 per sq ft cheaper, even after a recent jump in property costs in that city, according to the company. Partly cancelling this out, says David Turner, chief financial officer of Reuters American Holdings, are the property-tax breaks dating from Times Square's earlier, more seedy incarnation.

City officials put the net present value of these concessions at $36m. The city and state also agreed to further incentives, in the form of savings on future sales taxes, worth up to $26m. Nearly half of this reflected the Reuters' decision to keep 1,800 jobs in the city, with the rest tied to future expansion plans. New York's aggressive use of incentives to keep companies from moving out has become a hot political topic locally – with around $700m of concessions granted in the past four years.

Reuters, for its part, says the regeneration of the Times Square areas simply would not have happened without the incentives. "Our position always was that if there are substantial savings from moving, we would have done so," says Mr Turner. "Without these tax breaks, the numbers wouldn't have worked."

But Reuters says it had another aim as well: to establish a prominent base that will support its plans to become much larger and better known in the US.

Times Square has lately become a conspicuous corporate centre. While entertainment companies are the most prominent new arrivals, others have included Morgan Stanley Dean Witter, the investment bank.

"There is probably no better place in Manhattan to make your name known," says Mr Turner.

Richard Waters

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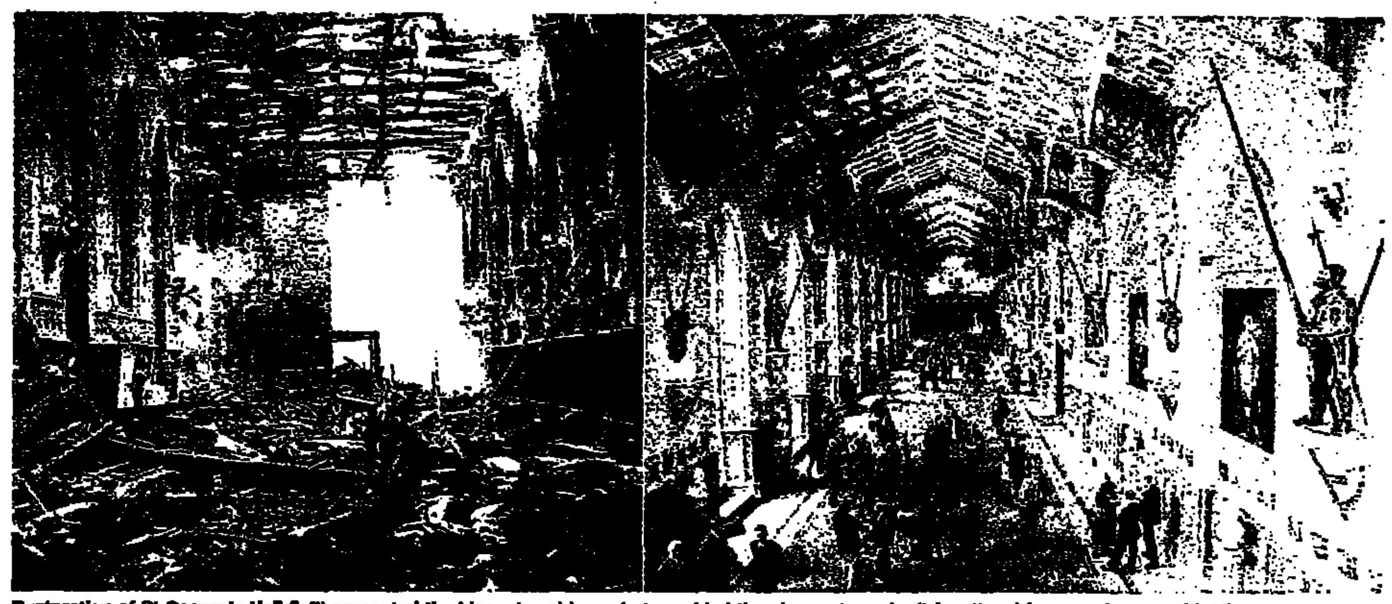
TECHNOLOGY

Andrew Taylor on the technical dexterity used to bring the royal castle discreetly up to date following the fire of 1992

Modern house of Windsor



Restoration of St George's Hall (left) presented the biggest problems, but provided the chance to make it functional for a modern age (right)

The Queen's Golden Wedding Ball, to be held on Thursday night in the magnificent setting of Windsor Castle, celebrates the completion of the building's restoration, five years after its historic north-east wing was destroyed by fire.

The damaged areas, now fully restored, were yesterday formally handed over to the Royal Household by project managers Gardiner & Theobald.

The statistics of reconstruction emphasise the scale of the task. Some 100 rooms with a floor area of more than 81,000sq ft were damaged by the fire, which took 1.5m gallons of water to extinguish, causing even more damage to fittings and fixtures.

More than 6,100sq m of plaster work has been restored. Wood from some 70 oak trees was needed to replace roof trusses. Some 40 miles of scaffolding was erected during reconstruction which cost £37m, about £3m less than originally forecast.

The biggest problem was to hide the evidence of late 20th century security, heating, lighting, ventilation and public address systems from observers wishing only to admire the majesty of the restored ceilings, panelling and mouldings.

Miles of pipework and wiring had to be concealed in rooms and corridors which lack the large ceiling and floor voids used to house mechanical and electrical services in modern buildings. Thick stone walls and high vaulted ceilings provide few opportunities for concealment.

The result is a triumph of architecture and technology, with modern building services incorporated within traditional designs in a manner that does not distract from the history and pageantry of the building.

Peter Kingsbury, project manager for Oscar Faber, which designed the mechanical and electrical systems for Windsor Castle, says: "Everything was reviewed by English Heritage to ensure that the historic pedigree of the building was not impaired.

More than 550 fire detectors have been installed in broom cupboards and roof voids

"We had to be imaginative in finding solutions, working closely with architects Donald Insall Associates and Sidell Gibson Partnership to find the best way to disguise equipment.

"The biggest problem was logistics. The project required no breakthrough in technology. Instead we had to install modern equipment and systems in a building which was not designed for them."

Ceiling mouldings were used to conceal apertures connecting with ventilation systems while heating pipework and radiator fans were hidden behind wood panelling and window seats.

Concealing ventilation ducts presented serious problems in the Great Kitchen with its huge open vaulted roof and exposed wooden beams.

Difficulties were overcome by housing ventilation plant in hidden enclosures at either end of the lantern, a raised section at the apex of the roof that had been designed by the original architects to let more natural light into the building.

The kitchen's existing chimneys and flues were used to extract the air.

Restoration of St George's Hall, designed by Sir Jeffrey Wyattville in 1829, presented some of the biggest problems. The reconstruction provided the opportunity to improve illumination which had been poor in the great hall, used for banquets and other ceremonial occasions.

As with the other electrical and mechanical services, however, the lights, designed by Maurice Brill, had to be concealed. Tiny fibre optic light projectors were installed in wooden bosses with connecting cables hidden in roof beams above the new ceiling. Dimming controls were placed behind panelling in the walls.

Access to wiring was provided through a cleverly concealed crawl way between the roof and the restored oak panelled ceiling.

Heavier media needs had led to increasing demands for broadcasts from banquets and functions in St George's Hall and other state rooms. Permanent sound, lighting and camera cabling, not previously available, has now been installed. Loudspeakers for a public address system have been concealed within structural supports with microphone outlets buried in the floor.

More than 550 fire detectors have been installed within the restoration area, in unobtrusive areas such as broom cupboards and roof voids. In other areas, air is drawn by a fan through small bore apertures, hidden behind plaster work mouldings and roses of chandeliers. These connect to laser alarm systems which detect smoke by measuring particle size.

"It is essential to minimise the number of false alarms, so the system is self-diagnostic," says Oscar Faber. "The detection system can be monitored separately during banquets so that the large number of candles does not trigger the main alarm."

Air conditioning has also improved conditions in the great hall which could become very hot during banquets.

According to Oscar Faber: "Fan coil units concealed in each window-reveal [a type of window bay] provide local heating and cooling. Ducting and wire ways are hidden between the floor boards and the top of the barrel-vaulted ceiling of the undercroft below. Extractor fans in the roof draw air out through a slot behind the decorative roof timbers."

Improvements to the drainage system were complicated by the fact that there were no plans to show where the existing pipework was situated.

Excavations, when they were permitted, uncovered a medieval floor, which nobody knew existed, in the undercroft beneath St George's Hall.

"The discovery of ancient stonework elsewhere meant we had to change plans and reroute drainage pipework around it. In one instance, an old well was uncovered, which is now protected as a site of historic interest," says Oscar Faber.

A combined heat and power system has been installed that may cut the castle's electricity bills by 20 per cent. Electrical machinery to power and control the building services had to be specially designed to fit in available rooms which were too small to accommodate conventional systems.

There have been few more challenging jobs which have been as fascinating and satisfying as this one, say the engineers.

Redesign improves electricity supplies

Peter Marsh on a device that increases the reliability of connections to rural areas

Pole position: FKI's redesigned circuit breaker minimises maintenance

Electricity supplies in rural parts of the world could become much more reliable, thanks to a technical breakthrough which today wins Britain's premier prize for engineering excellence.

A team at FKI, the UK engineering company, is being awarded the annual £50,000 MacRobert prize by the Royal Academy of Engineering for its role in rethinking the design of the circuit breakers used in transmission lines that carry electricity in remote areas.

The three-strong group came up with a device based on magnets that contains just one moving part – a far cry from the 157 components used in previous generations of the systems. The size of a small drum, the device sits on top of electricity poles and virtually guarantees the reliability of power supplies with maintenance kept to a minimum.

Since launching the device in 1994, FKI's Whipp & Bourne subsidiary has seen a steady increase in orders, and has had particular success with exports to South America and east Asia.

Circuit breakers cut off electricity supplies in the event of a fault such as a short circuit – as might happen when high winds cause transmission lines to touch. Most breakers automatically restore supplies after the problem has been rectified – but previous versions have been unreliable, causing power to be cut off for long periods. The simpler mechanism in the FKI system means the possibility of disruption is greatly diminished. Another aspect of the redesign is that the system works using about one-100th of the power of previous equipment, so that a battery can be used rather than requiring mains connection. This feature makes the device easier to install and operate.

Electronics in the system, called a vacuum recloser, can be "interrogated" through radio waves linked to the telephone system. This means engineers hundreds of kilometres away can check how the system is working: how much electricity is passing through it, for instance. In emergencies it is easy to section off a particular part of the grid to reroute supply through other channels.

In the past three months, FKI has taken £14m of orders for its device, with many of the systems destined for developing countries seeking to increase the reliability of electricity supplies in remote areas. The device – selling for about £6,000 – is being made in a factory near Manchester, but will soon also be manufactured in the US.

LAW

Court rejects duty-free case

EUROPEAN COURT

A challenge by Eurotunnel, the Channel tunnel operator, to Europe's duty-free shopping rules was rejected by the European Court of Justice last week.

The judgment arose out of a preliminary reference from the Paris Commercial Court in a dispute between Eurotunnel and SeaFrance, the Channel ferry company.

Eurotunnel alleged SeaFrance was guilty of unfair competition by selling goods free of tax and excise duty on board its ships, enabling it to offset transport charges at below cost prices.

As Eurotunnel considered that these practices were based on the European rules exempting goods sold in duty-free shops for air and sea travel from tax, it challenged the validity of the rules in the Paris court.

The European Court dealt first with the issue of whether the reference was admissible. This arose because Eurotunnel had brought similar proceedings in the English courts.

The Paris court asked the European Court whether because Eurotunnel had already brought proceedings in a national court and because it had not brought a direct action against the European Council of Ministers, whose directive was being challenged, it was precluded from bringing an action by way of a preliminary reference.

The question of whether Eurotunnel should have brought a direct action against the Council, raised the question of the Court's ruling in the 1994 TWD case.

The Court noted that its judgment in the TWD case concerned a company which was entitled to bring a direct action for annulment of the Community act whose validity was challenged in the national court.

In the present case, the provisions whose validity were being challenged, were contained in a directive. It was not obvious that such an instrument, addressed as it was to member states, could be challenged in a direct action by Eurotunnel.

As to the fact that there had already been similar proceedings in another member state, the Court said that it was not for it to assess the need for a preliminary ruling by reference to a judgment on a similar question given in separate proceedings in another member state.

As to the validity of the relevant European rules, the Court confined itself to two issues – whether the relevant provisions were the subject of a European Commission proposal to the Council and whether the European Parliament had been properly consulted.

The Court found that although the provisions were not the subject of a Commission proposal, the Council was empowered to amend the original Commission proposal to add the relevant provisions.

This was despite the fact that the Commission was opposed to duty-free exemptions for travel within the European Union. As the Council's amendments had been within the scope of the relevant directives, the Council did not exceed its power in not consulting the Commission regarding its amendments.

Turning to the question of whether the European Parliament had been properly consulted, the Court recalled that such consultation constituted a formal requirement in the Treaty of Rome, breach of which would render the measure void.

The Court found that the changes in question, extending the duty-free exemption from the original date of 1992 to June 30 1999, could not be classified as changes to the essence of the measures. It had therefore not been necessary to re-consult the Parliament and thus the provisions were valid.

C-408/95: Eurotunnel SA v SeaFrance, ECJ FC, November 11 1997.

BRICK COURT CHAMBERS, BRUSSELS

INTERNATIONAL PEOPLE

Smith to head Grant Thornton

Grant Thornton, the Chicago-based accounting firm, has made the rare move of selecting a new chief executive from outside the ranks of its existing partners.

The newcomer is Adrian Smith, formerly a managing partner at the larger Arthur Andersen group. He will join GT on December 1, before formally taking over from Robert Nason, the current chief executive, on July 31 next year.

Although Smith, 52, is resident in Illinois, he originally hails from Liverpool, north-west England, and began his career with Procter & Gamble, the Cincinnati-based consumer products giant, in the UK.

After 13 years with P&G – ultimately as a group brand manager – he moved to various international consumer marketing positions with Ecolab, the Minnesota-based household products group.

He transferred to Arthur Andersen six years ago, taking responsibility for worldwide marketing and communication.

GT, which has a core US partnership – which Smith will head – and a structure of associated accounting firm offices overseas, is about one-tenth of the size of Arthur Andersen, even if all these businesses are added together.

Smith professes to be unconcerned: "Ironically, as the accounting firms are getting bigger and bigger, many of their clients are decentralising." GT's task, he thinks, is to identify the more entrepreneurial.

But he would like the business to be "known more as a global firm" – an objective which should be pursued through represention of the US partnership on the international policy board.

In these days of global thinking, he sees no drawbacks to plugging that message from Chicago, in America's mid-west heartland – rather than New York, or Los Angeles for example.

"I don't think it matters two hoots whether you are on the coast or on the lake," he comments.

Nikki Tait, Chicago

Perry joins Boeing board

In the ongoing battle between the two remaining giants of the US aerospace and defence industry, the arrival of William Perry on the board of Boeing as a non-executive director should not be allowed to go unnoticed.

The services of Perry are likely to have been courted hard by both Boeing and its main surviving rival, Lockheed Martin – and not just because of his recent three-year stint as Clinton's defence secretary.

Before arriving in Washington in 1993, Perry, now 69, had built a remarkable career as a businessman, financier and academic : add in the political connections, and he has one of the most impressive personal networks in what used to be called the military/industrial complex.

What really adds spice to this appointment, though, is the fact that Perry has worked closely on important strategic moves at both Boeing and Lockheed in the past.

An engineer and mathematician by training, Perry was one of the first Silicon Valley entrepreneurs. He created ESL, a maker of surveillance and code-breaking devices, from his home in Palo Alto.

He also spent some years at Hambrecht & Quist, the San Francisco venture capital and investment banking firm, and ran his own consulting business, Technology Strategies and Alliances, for nearly a decade.

Before and after Washington, he has also worked as a full-time professor at Stanford University.

Out of all this has grown a reputation for being able to identify and apply the sort of new technologies on which the future of the defence and aerospace industries depend.

Some years ago, he helped Boeing with its acquisition of Argo Systems.

But he has also had close contacts with Lockheed: Perry helped Boeing's arch-rival with its $1bn purchase of Sanders Associates, a military electronics company, and advised it on an agreement to market Russian-made Proton rockets around the world.

Richard Waters, New York

Hovers to leave Stork for Océ

Jan Hovers delivered Stork, the Dutch industrial services group, a new baby last year in the Fl 302m ($180.5m) deal to buy the profitable components and maintenance divisions of Fokker, the failed aircraft maker.

Now he is off to head Océ, the photocopiers and printers group where he began his career 30 years ago.

Hovers, aged 54, succeeds Harry Pennings, who on retirement will move to a non-executive role next May. The Océ supervisory board also gains Pieter Bouw, until this summer president of KLM.

Pennings capped his term with the acquisition of the printer division of Germany's Siemens Nixdorf, which has been contributing strongly to profits growth this year.

In eight years as chairman of Stork, Hovers established a reputation as a conciliator in the best traditions of the Netherlands' consensus economy.

But he drew fire in the past year for what those anxious to save all of Fokker saw as an unwillingness to back a series of ultimately doomed plans to find a new parent for the aircraft manufacturing side.

Taking over at Stork next March is Aad Veenman, 50, who has been a director there since 1990.

Gordon Cramb, Amsterdam

Moving places

■ Joe Clark, former prime minister and foreign minister of Canada, has been appointed special adviser on African affairs by FIRST QUANTUM MINERALS, the Canadian company which is focused on Central African base and precious metals projects, especially in Zambia and the Congo.

■ NATIONAL BANK OF BAHRAIN has appointed Abdulla Ali Kanoo the new chairman of the bank. Kanoo replaces his brother Ahmed, who died earlier this year.

■ THE INTERNATIONAL MONETARY FUND has appointed a New Zealander to head the fledgling central bank of Bosnia and Herzegovina. The fund said Peter Nicholl would succeed Serge Robert as governor of the central bank, which has the sole authority for monetary policy. Nicholl has been deputy governor of the Reserve Bank of New Zealand and recently served as an executive director at the World bank.

■ Dutch transport group KONINKLIJKE FRANS MAAS has appointed Henk Benjamins executive chairman from 1998. Interim chairman Roland Oliemans will retire when Benjamins takes over on January 1. Benjamins, 53, has been a member of the executive board since 1991 and Frans Maas said said the appointment followed consideration of outside candidates. Before joining Frans Maas, Benjamins held a number of management positions in the transportation and logistics field, including posts at Anglo-Dutch consumer products giant Unilever and integrated chemicals manufacturer Akzo Nobel.

■ Anneli Peshkoff is to be new director of treasury at the EUROPEAN INVESTMENT BANK, the European Union's financing institution. Peshkoff, who is currently head of market risk management for Europe at Citibank in London, is expected to take up the new post in December.

■ EQUIFAX has appointed a new head of its European operations, in line with a major restructure of its organisation worldwide. Nick Bevan, formerly a group director of Equifax in Europe has been appointed as group executive of Equifax and executive vice-president of Equifax in Europe. He is one of four group executives of Equifax reporting directly to president and chief operating officer of Equifax, Thomas Chapman. Bevan, an Englishman, takes over from Travis Halford.

■ CHINA EVERBRIGHT TECHNOLOGY has appointed Chen Dagang executive director and chief executive, replacing Yi Zhenqiu. Chen, a former official with the China Securities Regulatory Commission, was general manager of China Everbright International before being appointed to the new position.

■ Lois Jacobs is to join CARIBINER as chief executive of Caribiner's European division. She has been managing director of HP:ICM since its formation in 1988 and became chairman in 1994.

■ Louis Hughes, president of General Motors International Operations, has been elected chairman of the EUROPEAN COUNCIL OF AMERICAN CHAMBERS OF COMMERCE. The umbrella organisation consists of 23 American chambers of commerce in Europe and represents over 15,000 member companies. Hughes has been president of the Swiss-American Chamber of Commerce since 1995.

■ Germany's leading assurance company ALLIANZ (Munich) has announced that Gerd-Uwe Baden, 41, has been appointed chief executive of Allianz-Versicherung (Schweiz) and Allianz-Lebensversicherung (Schweiz) as well as head of the Berner insurance group and the Elvia Group. At present Baden is board member of Deutsche Versicherungs Berlin, an Allianz subsidiary. The new appointment will bring all Allianz's Swiss units under the same management.

■ Jane Friedman has been named president and chief executive of HARPERCOLLINS PUBLISHERS. Friedman takes over the top spot at HarperCollins from Anthea Disney, who last month was promoted to chairman and chief executive of News America Publishing Group. Friedman was most recently with Random House, where she was executive vice-president of Knopf Publishing Group, publisher of Vintage Books and president of Random House Audio Publishing. Friedman will be responsible for HarperCollins book publishing worldwide.

■ CHARTER ONE BANK, the principal subsidiary of Charter One Financial, has appointed Richard Powers chief executive of the bank's Charter One Mortgage subsidiary and Paul Bailey has been named the unit's chief operating officer. Powers is also senior vice-president, residential lending, of Charter One Bank. Bailey was previously executive vice-president, loan administration at American Home Funding, the predecessor of Charter One Mortgage.

■ SARA LEE has appointed George Chivari president and chief executive of Sara Lee Bakery, North America. Chivari will continue to serve as chief executive of Sara Lee's Bil Mar Foods division. Chivari, 46, has been president and chief executive of Bil Mar Foods since July 1994. Chivari will also oversee North American operations for Sara Lee Bakery.

■ KVAERNER, the Norwegian engineering group, has appointed Martin Saarikangas president of its shipbuilding division. He will succeed Diderik Schnitler who is to join Norwegian oil company Saga Petroleum. Saarikangas is currently head of Kvaerner Masa-Yards, the group's Finnish shipbuilding subsidiary.

■ CHRYSLER has promoted Jim Zemke to regional marketing manager for the Middle East. Before moving to the Middle East, Zemke spent three years in Taiwan, Korea and China.

■ MOUCHEL ASIA, the engineering consultancy group, has promoted Carmaine Siu Koon-hoi, a structural engineer, to managing director of Mouchel Asia in Hong Kong. He succeeds Tim Ingram who becomes chairman, Mouchel Asia. The appointments reflect the growing importance of Hong Kong, mainland China and the region generally to Mouchel.

International appointments

Please fax information on new appointments and retirements to +44 171 873 3926, marked for International People. Set fax to 'fine'.

INTERNATIONAL CAPITAL MARKETS

Trading subdued ahead of key data

GOVERNMENT BONDS

By John Labate in New York and Vincent Boland in London

Government bond markets shifted down a gear yesterday as investors sat on the sidelines waiting for key economic data in Europe and the US this week. European markets had one of their quietest days for some time, while US bonds opened slightly lower as the focus shifted to equity markets.

US TREASURIES eased in morning trade after the release of new reports on industrial activity. A surging stock market, buoyed by a sharp rise in Tokyo overnight, added to the weaker bond prices.

By early afternoon the benchmark 30-year bond was down ¼ at 100⅛, sending the yield up to 6.104 per cent. Shorter-term issues were also slightly lower, with the 10-year note losing 3/32 to 101 27/32, to yield 5.872 per cent, while the two-year note was down 1/32 at 99 31/32, yielding 5.692 per cent. The Federal Funds rate was 5¾ per cent.

Strength in the manufacturing sector was seen in the release of the October industrial production report, which rose 0.5 per cent, in line with expectations.

"October was the fourth consecutive month that industrial production rose by at least 0.5 per cent, indicating that manufacturing activity continues to be strong," said Maureen Maitland, an economist at Donaldson, Lufkin & Jenrette.

In a surprise to analysts, capacity utilisation did not grow as much as anticipated, at 84.3 per cent, suggesting that capacity was able to grow in line with production, Ms Maitland added.

Analysts await new figures on the monthly consumer price index and business inventories, which will be released today.

The 8 per cent jump in the Nikkei index did little for JAPANESE GOVERNMENT BONDS in London trading after settling just above their intra-day lows in Tokyo trade. The yield on the JGB 182 fell slightly, to 1.68 per cent against its closing level of 1.685 per cent in Tokyo, while the futures contract settled at 129.89 against 129.53.

European markets took a breather, with little news on the domestic front to trouble them, and kept a weather eye on Treasuries. Volumes across the main markets were also very low ahead of the data flow which picks up today. But the markets managed to recover from their intra-day lows to close mostly unchanged.

UK GILTS were subdued ahead of the release tomorrow of data on retail sales for October and on Thursday of gross domestic product figures. The December futures contract settled at 117 31/32, up 3/32 on Friday's close, with just 33,000 contracts traded. The spread of 10-year gilts over equivalent bunds narrowed slightly to 114 basis points.

A rise in UK retail sales is forecast for last month, but economists were divided on whether it would be sufficient to reverse the fall of 1.9 per cent in September. Analysts also noted that the market remained extremely sensitive to any slight deviation from forecasts, which was keeping investors away.

"The last interest rate rise increased data sensitivity dramatically, which is an incentive not to have a lot of short-term trading. There is a lot of unwillingness to trade in the market now," said Andrew Roberts, gilts specialist at UBS.

He said the market was "quite beautifully poised" between those who believe interest rates are headed for 8 per cent, and those who believe there will be no more rises. Retail sales and GDP data, which are extremely consumer-sensitive, offer as good a clue as any.

GERMAN BUNDS also traded sideways ahead of impending domestic data. The December futures contract settled 0.06 lower at 102.82, but was down to 102.58 before recovering in line with Treasuries. Trading was quiet, with fewer than 100,000 contracts changing hands by the settlement in both Frankfurt and London.

Investors were looking ahead to M3 money supply figures later this week, and to an influential business sentiment report from the Ifo institute, the contents of which often move the market.

ITALIAN BTPs traded in a narrow range ahead of preliminary November inflation data, which is due from the main cities at the end of the week. The December futures contract settled unchanged at 112.27, with the spread over 10-year bunds narrowing to 57 basis points from more than 60 points.

Luca Jellinek, Italy specialist at Paribas, said domestic investors were re-entering the Italian bond market on the basis of a very favourable economic background. The inflation data are not expected to reveal any upsets.

FRENCH BONDS recovered from an early fall, with the notional December future settling 0.04 lower at 98.16 and the spread over 10-year bunds flat.

CAPITAL MARKETS NEWS DIGEST

French bank sets up financing arm

Comptoir des Entrepreneurs, the French bank, has set up a "bankruptcy-remote" financing arm to reduce its cost of borrowing. The financing vehicle, Vauban Mobilisations Garanties, will maintain a triple-A rating – the highest on Standard & Poor's scale – by holding collateral to guarantee its borrowings. The collateral will consist mainly of triple-A rated securities, in particular mortgage-backed bonds issued by CDE.

"VMG offers a flexible structure that will help CDE to gain in quality and continuity," CDE said. Funds raised by VMB will be automatically lent to CDE. In normal operating conditions – *as long as CDE is solvent* – VMG's debt is serviced by CDE. However, should CDE become insolvent, the loans would be gradually amortised with proceeds from the securities that VMG holds as collateral.

VMG is planning to issue FFr3.2bn of debt this year on the eurobond and French domestic bond markets. Thereafter, it will become a regular issuer of securities, with annual borrowing programmes of between FFr3bn and FFr5bn. CDE's institutional shareholders include AGF, the French insurance group, and Crédit Foncier de France, the mortgage lender. *Samer Iskandar*

■ WASTE TREATMENT

Big French group to go public

Seche Environnement, the third biggest French waste *treatment and landfill operator*, is to go public with an initial public offering to raise FFr260m and list its shares on the second market of the Paris stock exchange. NatWest Markets has been appointed lead manager to the issue, which will consist of 950,000 shares being sold by Joel Seche, chairman, and 400,000 new shares. The indicative price range is FFr175–FFr205 a share, with pricing expected on November 20, and the public offering will run from November 21 to 26. *Vincent Boland*

■ DERIVATIVES ACCOUNTING

ISDA welcomes US rules

The International Swaps and Derivatives Association, which represents participants in privately-negotiated derivatives transactions, has welcomed the introduction of US legislation to restrict the impact on banks of derivatives accounting rules proposed by the Financial Accounting Standards Board. The FASB's proposals, due to take effect in January 1999, require derivatives to be reported as assets and liabilities based on so-called fair-value amounts.

The legislation, introduced by Senator Lauch Faircloth, chairman of the Senate banking committee's *subcommittee* on financial institutions and regulatory relief, would provide that the FASB's rules only apply if they are proven to reflect a bank's earnings more accurately and do not diminish the use of risk management practices. *Samer Iskandar*

Borrowers opt for D-Mark safe haven

INTERNATIONAL BONDS

By Edward Luce

Borrowers yesterday plumped mainly for the shorter-end of the D-Mark curve with little sign of many dollar-denominated offerings in the pipeline.

Bankers said continued *worries about US interest* rates, and even fears that Japanese banks would liquidate their US Treasury holdings to shore up their balance sheets, had left borrowers wary of issuing in US dollars.

In contrast, D-Marks are seen as a relatively safe haven from the recent turmoil, considering the strength of investor demand in that sector.

GREECE issued its largest ever D-Mark denominated bond *at a much wider spread* than previous offerings. The DM750m floating-rate issue was priced to yield 50 basis points over three-month Libor at re-offer. This is almost double Greece's usual spread in D-Marks.

An official at Dresdner Kleinwort Benson, sole lead manager, said the five-year offering was targeted exclusively at institutional investors mostly in Germany, France and the Benelux region. About 50 per cent of the deal had been placed yesterday. It starts trading today.

"This is not a quick type of deal," said an official in London. "It takes time for the German banks to check *their credit lines and to look* at market conditions." Others said the deal was helped by its having a zero risk-weighting in Germany.

KfW, the German financial house, issued a 10-year DM700m bond at *a spread of* 13 basis points over the German government curve. Traders said the deal was "less than ecstatically received" owing to its long maturity. "Investors are still very wary of longer-dated paper," said one. The bond, targeted mostly at Dutch investors, was lead-managed by Rabobank International.

The EIB – the European Investment Bank – continued its recent activity with a DM300m offering. An official at *Credit Suisse First Boston*, joint lead with Goldman Sachs, said the four-year deal was timed to coincide with a number of forthcoming redemptions at the short-end of the D-Mark curve.

Officials conceded that the bond was priced relatively aggressively at flat to the German government curve but said the "name recognition" factor would go down well with Swiss and German retail investors.

Bankers said they had also been encouraged by the success of a recent GECC D-Mark offering which has since tightened in from its launch spread.

OKK, an Austrian credit institution, also came to the D-Mark sector with a 10-year DM200m offering. The bond was priced to yield 29 basis points over the July 2007 bund although it matures in January 2008.

New international bond issues

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
US DOLLARS							
Nippon Thompson Corp‡	50	(a)	100.00	Dec 2002	0.30		Tokai Bank Europe
D-MARKS							
Hellenic Republic	750	(b)	99.42R	Nov 2002	0.30R		Dresdner KB
KfW	700	5.625	99.17R	Nov 2007	0.325R	+13(f)	Rabobank International
European Investment Bank§	300	4.75	99.42R	Dec 2001	0.225R	flat(4⅜%-01)	CSFB/Goldman Sachs
Oest Kommunalkredit	200	5.875	99.955R	Jan 2008	0.325R	+29(6¼%-07)	Bayerische Landesbank
YEN							
Helios Capital	22bn	2.554	100.00	Nov 2003	1.675		Nomura International
ITALIAN LIRE							
Mediobanca Intl(LII)‡§	(d)	(3½-4)	100.00	Jan 2001	2.60		Goldman/Mediobanca
LUXEMBOURG FRANCS							
Genfinance Luxembourg	2bn	6.125	102.60	Dec 2007	2.00		BGL

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. ‡Unlisted. §Convertible. ‡ Floating-rate note. ¶Semi-annual coupon. R: fixed re-offer price; fees shown at re-offer level. a) 6-mth Libor [illegible]. b) 3-mth Libor [illegible]. c) Secured on leases originated by Mycal Stores. d) Exchangeable into Banca di Roma shares at indicated 15-20% premium. Fung: 1/12/97. Amount to correspond to 250m-300m shares. Callable after 2 yrs subject to 130% hurdle. Optional share settlement on maturity. § Over interpolated yield. § Long 1st coupon

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

Nov 17	Red Date	Coupon	Bid Price	Bid Yield	Day chg yield	Wk chg yield	Month chg yld	Year chg yld
Australia	03/99	6.250	101.5406	5.02	+0.04	+0.06	+0.06	-1.25
	10/07	10.000	129.2649	5.99	+0.04	-0.02	-0.27	-1.06
Austria	09/98	7.000	104.2700	4.51	-0.04	-0.14	-0.25	+0.92
	07/07	5.625	99.7800	5.66	+0.01	-0.03	-0.09	-0.25
Belgium	04/99	7.000	103.6000	4.34	-0.01	-0.08	-0.28	+0.94
	03/07	6.250	103.7100	5.72	-	-0.02	-0.06	-0.25
Canada*	03/99	4.000	99.9000	4.07	+0.05	+0.12	+0.05	+0.20
	06/07	7.250	112.9000	5.47	+0.04	-0.02	-0.28	-0.84
Denmark	12/99	6.000	102.3500	4.77	+0.02	-0.06	-0.29	+0.54
	11/07	7.000	106.6200	6.10	+0.01	-0.03	-0.06	-0.66
Finland	01/99	11.000	107.3633	4.29	-0.05	-0.11	-0.09	+0.42
	04/06	7.250	109.6581	5.76	-0.02	-0.05	-0.10	-0.67
France	11/98	7.000	104.9100	4.35	-0.02	-0.13	-0.26	+0.59
	10/04	6.750	108.3000	5.28	-	-0.06	-0.16	-0.03
	10/07	5.500	99.3300	5.59	-	-0.05	-0.14	-0.24
	10/25	6.000	97.6100	6.17	-0.01	-0.05	-0.07	-0.57
Germany	06/99	3.500	98.9500	4.19	-0.02	-0.12	-0.27	+0.69
	07/04	6.750	107.8000	5.32	-	-0.03	-0.14	-0.17
	07/07	6.000	103.0000	5.58	-	-0.03	-0.11	-0.23
	07/27	6.500	104.0100	6.20	+0.01	-0.01	-0.03	-0.51
Ireland	04/99	6.250	100.9700	5.47	+0.04	-0.06	-0.13	-0.48
	08/06	8.000	112.7000	6.08	+0.01	-0.02	-0.01	-0.68
Italy	05/00	6.000	101.7000	5.26	-0.06	-0.16	-0.13	-1.18
	05/02	6.250	102.8600	5.57	-	-0.13	-0.11	-1.25
	07/07	6.750	104.9800	6.06	+0.01	-0.10	-0.06	-1.53
	11/26	7.250	108.5000	6.59	-0.01	-0.09	-0.02	-1.50
Japan	06/99	4.800	106.9900	0.34	-0.07	-0.14	-0.14	-0.52
	12/02	4.800	117.5200	1.23	+0.01	-0.03	-0.10	-0.75
	09/05	3.000	109.0900	1.75	+0.05	+0.03	-0.08	-0.88
	03/17	3.500	114.2200	2.56	+0.06	+0.11	-0.07	-0.63
Netherlands	06/99	7.500	104.6700	4.33	-0.04	-0.11	-0.22	+0.81
	02/07	5.750	101.3000	5.56	-	-0.04	-0.12	-0.17
New Zealand	02/00	6.500	99.0068	6.98	+0.03	+0.09	+0.15	+0.09
	11/06	8.000	108.2507	6.74	+0.08	+0.07	+0.08	-0.43
Norway	01/99	9.000	105.1140	4.49	-	-0.01	-0.07	-0.30
	01/07	6.750	106.7960	5.77	-0.01	-0.03	-0.06	-0.72
Portugal	03/99	8.500	104.3700	5.01	-0.05	-0.14	-0.12	-1.39
	03/07	6.625	104.6800	5.85	-0.03	-0.10	-0.09	-1.19
Spain	07/99	7.400	104.1891	4.74	-	-0.17	-0.26	-1.53
	03/07	7.350	110.1557	5.90	-	-0.12	-0.11	-1.40
Sweden	01/99	11.000	108.5100	5.09	+0.04	-0.07	-0.10	-0.25
	08/07	8.000	111.4380	6.38	+0.05	-0.03	-	-0.91
Switzerland	03/99	4.000	102.4300	2.09	+0.05	-	+0.02	-0.11
	06/07	4.500	106.8800	3.83	-0.03	-0.03	-	-0.24
UK	08/99	6.000	98.2031	7.12	-0.01	+0.05	+0.26	+0.33
	11/04	6.750	100.0625	6.74	-	+0.04	+0.21	-0.64
	12/07	7.250	104.5313	6.62	-0.03	+0.04	+0.13	-1.07
	06/21	8.000	117.4609	6.54	-	+0.07	+0.06	-1.23
US*	07/99	5.875	100.1880	5.75	+0.04	-	-0.16	+0.09
	05/04	7.250	107.2340	5.89	-	-0.03	-0.29	-0.07
	08/07	6.125	101.7810	5.88	+0.02	-0.02	-0.28	-0.30
	08/27	6.375	103.0160	6.15	+0.02	-0.04	-0.29	-0.31
ECU	03/99	5.000	100.3700	4.68	-	-0.06	-0.12	+0.43
	04/07	5.500	98.2300	5.74	-0.01	-0.05	-0.11	-0.48

London closing. *New York closing. Source: Interactive Data/FT Information
Yields: Local market standard/Annualised yield basis. Yields shown for Italy exclude withholding tax at 12.5 per cent payable by nonresidents.

10 YEAR BENCHMARK SPREADS

Nov 17	Bid Yield	Spread vs Bunds	Spread vs T-Bonds
Australia	5.99	+0.41	+0.11
Austria	5.65	+0.07	-0.23
Belgium	5.72	+0.14	-0.16
Canada	5.47	-0.11	-0.41
Denmark	6.10	-0.52	+0.22
Finland	5.76	+0.18	-0.12
France	5.59	+0.01	-0.29
Germany	5.58	-	-0.30
Ireland	6.08	+0.50	+0.20
Italy	6.06	+0.48	+0.18
Japan	1.75	-3.83	-4.13
Netherlands	5.56	-0.02	-0.32
New Zealand	6.74	+1.16	+0.86
Norway	5.77	+0.19	-0.11
Portugal	5.95	+0.37	+0.07
Spain	5.90	+0.32	+0.02
Sweden	6.38	+0.80	+0.50
Switzerland	3.64	-1.94	-2.24
UK	6.62	+1.04	+0.74
US	5.88	+0.30	-
ECU	5.74	+0.16	-0.14

Source: Interactive Data/FT Information
London closing. * New York closing.
Annualised yield basis.

EMERGING MARKET BONDS

Nov 17	Red date	Coupon	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Sprd vs US
■ EUROPE								
Croatia	02/02	7.000	BBB-	95.7322	8.20	+0.06	+0.68	+2.39
Poland	07/00	7.750	BBB-	103.1156	6.41	+0.03	-0.19	+0.65
Russia	11/01	9.250	BB-	92.0807	11.84	+1.23	+3.80	+6.08
■ LATIN AMERICA								
Argentina	01/17	11.375	BB	93.1895	12.30	+0.15	+2.79	+6.31
Brazil	11/01	8.875	BB-	98.8096	9.85	+0.06	+1.91	+4.07
Mexico	01/07	9.875	BB	99.1186	10.02	+0.20	+1.42	+4.14
■ ASIA								
China	07/06	7.750	BBB+	104.6754	7.00	-0.07	-0.13	+1.13
Philippines	10/16	8.750	BB+	85.6548	10.51	+0.09	+1.67	+4.53
Thailand	04/07	7.750	A-	84.0106	10.49	+0.27	+2.38	+4.61
■ AFRICA/MIDDLE EAST								
Lebanon	07/00	9.125	BB-	102.6734	7.95	+0.06	+0.28	+2.19
South Africa	12/99	9.625	BB+	105.1235	6.82	-0.29	+0.14	+1.22
Turkey	05/02	10.000	B	98.6568	10.36	+0.13	+1.78	+4.57
■ BRADY BONDS								
Argentina	03/23	5.500	BB	65.9727	9.54	+0.03	+1.25	+3.48
Brazil	04/24	5.250	BB-	63.5710	9.77	+0.05	+1.35	+3.69
Mexico	12/19	8.250	BB	76.7487	8.82	+0.05	+0.70	+2.80
Venezuela	03/20	6.750	B+	81.7473	8.60	+0.05	+0.55	+2.57

London closing. Prices in US$. Standard & Poor's ratings. Source: Interactive Data/FT Information.

BOND FUTURES AND OPTIONS

France

■ NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	98.10	98.16	-0.04	98.16	98.02	42,914	97,459
Mar	98.52	98.64	-0.04	98.64	98.50	469	14,384
Jun	98.08	98.06	-0.18	98.12	98.02	15	-

■ LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	Calls Dec	Calls Jan	Calls Mar	Puts Dec	Puts Jan	Puts Mar
98	1.27	1.02	1.46	0.07	0.34	0.79
99	0.64	0.69	1.16	0.14	0.51	0.98
100	0.47	0.44	0.81	0.27	0.76	1.22
101	0.22	0.26	0.69	-	-	-
102	0.09	0.14	0.51	0.69	-	-

Est. vol. total, Calls 16,456 Puts 13,120. Previous day's open int., Calls 66,956 Puts 43,646.

Germany

■ NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	102.67	102.82	-0.06	102.86	102.58	93751	254874
Mar	101.99	102.13	-0.07	102.07	101.98	1513	16421

■ BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	Calls Dec	Calls Jan	Calls Feb	Calls Mar	Puts Dec	Puts Jan	Puts Feb	Puts Mar
10250	0.42	0.43	0.66	0.85	0.10	0.80	1.03	1.22
10300	0.14	0.25	0.46	0.64	0.32	1.12	1.33	1.51
10350	0.04	0.14	0.31	0.47	0.72	1.51	1.68	1.84

Est. vol. total, Calls 10231 Puts 11451. Previous day's open int., Calls 290602 Puts 295036

■ NOTIONAL GERMAN BUND (BOBL) FUTURES (DTB) DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	103.60	103.73	+0.05	103.76	103.55	67,112	230,925
Mar	102.92	103.04	+0.03	102.97	102.92	1,960	40,273

Italy

■ NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	112.11	112.27	-	112.38	112.05	32758	117991
Mar	112.60	112.52	+0.01	112.60	112.50	290	6700

■ ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	Calls Dec	Calls Mar	Puts Dec	Puts Mar
11200	0.39	1.51	0.12	0.99
11250	0.11	1.21	0.34	1.19
11300	0.04	0.96	0.77	1.44

Est. vol. total, Calls 3968 Puts 4216. Previous day's open int., Calls 128673 Puts 128890

Spain

■ NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	103.68	103.59	-0.06	104.09	103.68	45,602	97,393
Mar	-	103.52	-0.07	-	-	-	1,128

UK

■ NOTIONAL UK GILT FUTURES (LIFFE)* £50,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	117-19	117-31	+0-03	118-01	117-18	33561	149292
Mar	118-06	118-15	+0-02	118-15	118-06	2057	33983

■ LONG GILT FUTURES OPTIONS (LIFFE) £50,000 64ths of 100%

Strike Price	Calls Dec	Calls Jan	Calls Feb	Calls Mar	Puts Dec	Puts Jan	Puts Feb	Puts Mar
117	1-04	1-60	2-18	2-36	0-06	0-30	0-50	1-08
118	0-23	1-17	1-42	1-60	0-25	0-51	1-12	1-30
119	0-04	0-48	1-11	1-26	1-06	1-18	1-45	1-60

Est. vol. total, Calls 936 Puts 1127. Previous day's open int., Calls 78994 Puts 31117

Ecu

■ ECU BOND FUTURES (MATIF) ECU100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	98.10	98.16	-0.04	98.16	98.10	109	7,451

US

■ US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	118-12	118-03	-0-13	118-15	117-30	527,016	592,744
Mar	118-05	117-27	-0-13	118-05	117-22	39,807	125,390
Jun	117-13	118-03	-	117-16	117-13	319	13,694

Japan

■ NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Dec	129.83	-	-	129.94	129.83	4944	n/a
Mar	129.21	-	-	129.33	129.21	3018	n/a

* LIFFE futures also traded on APT. All Open Interest figs. are for previous day.

US CORPORATE BONDS

Nov 14	Red date	Coupn	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Sprd v Govts
[illegible]								
Pac Bell	07/02	7.25	AA-	103.9720	6.24	+0.01	-0.13	+0.46
NY Tel	08/25	7.00	A+	97.9671	7.16	-0.01	-0.12	+1.08
CWE	05/08	8.00	BBB	108.7792	6.81	-	-0.18	+0.96
[illegible]								
GECC	05/07	8.75	AAA	116.3309	6.42	-0.01	-0.17	+0.57
Banc One	06/02	7.25	A+	103.7756	6.30	-	-0.14	+0.52
US West	01/07	7.30	BBB+	102.6183	6.90	-0.01	-0.03	+1.05
■ INDUSTRIALS								
WMX Tech	04/99	6.25	A-	99.9147	6.30	-	+0.16	+0.63
Wal Mart	05/02	6.75	AA	102.1056	6.20	+0.01	-0.12	+0.42
Dayton Hud	06/21	9.70	BBB+	128.2834	7.19	-	-0.17	+1.11
■ AGENCIES								
FHLMC	04/07	7.14	N/A	107.0655	6.13	-0.01	-0.25	+0.28
SLMA	03/00	7.50	N/A	103.5559	5.82	-0.01	-0.14	+0.10
FNMA	02/16	8.95	N/A	127.5318	6.48	-0.01	-0.29	+0.40
FFCB	06/06	8.95	N/A	118.4159	6.14	-	-0.21	+0.29
■ HIGH YIELD								
Stone Cont	02/01	9.88	B	101.7500	0.00	-	-	-
AK Stl	12/01	9.13	BB-	104.0000	0.00	-	-	-
Pacalta	06/04	10.75	B-	97.5000	0.00	-	-	-

New York closing. Source: Interactive Data/FT Information.
Standard & Poor's ratings. Yields: semi-annual basis.

US INTEREST RATES

Latest — Treasury Bills and Bond Yields

Prime rate	8½	One month	-	Two year	5.71
Broker loan rate	7¾	Two month	-	Three year	5.77
Fed.funds	5[illegible]	Three month	5.30	Five year	5.82
Fed.funds at intervention	-	Six month	5.37	10-year	5.89
		One year	5.45	30-year	6.11

INTERNATIONAL BONDS

Nov 17	Red date	Coupon	S & P Rating	Bid price	Bid yld	Day's chge yld	Mth's chge yld	Spread v Govts
[illegible]								
EIB	02/07	5.750	AAA	100.6400	5.65	-	-0.09	+0.06
Spain	01/07	5.750	AA	100.0100	5.75	+0.02	-0.08	+0.17
Philip Morris	03/04	5.375	A	98.2000	5.72	+0.06	-0.09	+0.40
ABN Amro FRN	03/05	3.625	n/a	99.8247	5.68	-	-0.15	+0.14
[illegible]								
Austria	01/04	5.500	AAA	100.8900	5.32	-0.04	-0.17	+0.03
Abbey Nat	02/04	6.000	AA	103.1500	5.39	-	-0.16	+0.10
Cred Foncier	02/04	9.125	A	117.4200	5.72	-0.01	-0.11	+0.43
Abbey Nat FRN	09/06	4.510	n/a	100.4437	4.45	-	-0.10	-1.05
[illegible]								
EIB	02/07	7.000	AAA	106.9000	6.00	-0.03	-0.07	-0.06
Abbey Nat	02/02	8.600	AA	104.0700	5.89	+0.01	-0.02	+0.12
Walt Disney	08/00	8.625	n/a	106.8800	5.67	-	-0.27	+0.41
Abbey Nat FRN	03/07	8.000	AAr	102.5685	7.26	+0.01	+0.20	+1.20
[illegible]								
EIB	12/07	7.625	AAA	104.3193	7.01	-0.02	+0.27	+0.39
Dresdner Bk	12/07	7.750	AA	102.2692	7.42	-0.02	+0.29	+0.80
RBS	01/07	8.375	A+	106.0620	7.56	-0.02	+0.33	+0.96
Abbey Nat FRN	02/02	7.400	AA	99.9579	6.83	-0.04	+0.22	+0.02
[illegible]								
EIB	04/07	7.250	AAA	106.3296	6.33	+0.04	-0.27	+0.45
ABN Amro	08/07	7.125	AA-	103.4609	6.63	+0.03	-0.18	+0.75
Quebec	01/07	7.000	A+	102.5726	6.62	+0.04	-0.10	+0.74
Citicorp FRN	02/04	5.761	A+	99.2773	5.92	+0.07	+0.01	+0.06
[illegible]								
Bayer L-Bk	08/04	9.500	AAA	121.1358	5.63	+0.03	-0.13	+0.15
Toronto	05/04	8.500	AA+	115.5376	5.58	+0.01	-0.18	+0.10
Bell Canada	07/99	10.625	A+	108.9250	4.84	+0.01	-0.04	+0.10
Deutsche B FRN	09/02	5.875	AAA	102.2005	5.35	+0.03	-0.06	+0.05
[illegible]								
World Bank	03/02	5.250	AAA	117.9750	1.00	-0.03	-0.17	-0.01
Spain	03/02	5.750	AA	119.6500	1.09	-0.03	-0.13	+0.09
Cred Foncier	08/02	4.750	A	114.6946	1.50	-0.02	-0.14	+0.49
Italy FRN	07/99	0.594	AA	100.4202	0.14	-0.06	+0.01	-0.20

London closing. Source: Interactive Data/FT Information
Standard & Poor's ratings. Yields: Local market standard/Annualised basis.

UK BONDS

FTSE Actuaries Govt. Securities

Price Indices UK Gilts	Mon Nov 17	Day's change %	Fri Nov 14	Accrued interest	xd adj. ytd
1 Up to 5 years (19)	119.19	0.06	119.11	2.14	9.47
2 5-15 years (20)	156.81	0.08	156.69	3.20	9.73
3 Over 15 years (4)	189.28	0.06	189.17	4.71	9.77
4 Irredeemables (4)	224.18	0.23	228.64	0.64	14.48
5 All stocks (47)	149.98	0.07	150.02	3.05	9.87
Index-linked					
6 Up to 5 years (2)	210.09	0.03	209.96	0.78	6.09
7 Over 5 years (10)	211.65	0.09	211.46	1.19	5.76
8 All stocks (12)	210.40	0.09	210.23	1.15	5.76

UK Indices

	Low coupon yield Nov 17	Nov 14	Yr. ago	Medium coupon yield Nov 17	Nov 14	Yr. ago	High coupon yield Nov 17	Nov 14	Yr. ago
5 yrs	6.77	6.79	7.19	6.89	6.90	7.25	6.91	6.93	7.29
15 yrs	6.61	6.62	7.70	6.60	6.61	7.68	6.68	6.69	7.71
20 yrs	6.61	6.62	7.79	6.58	6.59	7.74	6.67	6.68	7.78
Irred.†	6.68	6.69	7.86						

	Inflation 5% Nov 17	Nov 14	Yr. ago	Inflation 10% Nov 17	Nov 14	Yr. ago
Up to 5 yrs	3.30	3.30	3.13	2.53	2.53	2.42
Over 5 yrs	3.21	3.21	3.51	2.99	2.99	3.30

Average gross redemption yields are shown above. Coupon Bands: Low: 0%-7¾%; Medium: 8%-10¾%; High: 11% and over. † Flat yield. ytd Year to date.

FT Fixed Interest Indices

	Nov 17	Nov 14	Nov 13	Nov 12	Nov 11	Yr ago	High*	Low*
Govt. Secs. (UK)	98.42	98.42	98.65	98.66	98.25	94.49	101.63	93.31
Fixed Interest	130.58	131.22	131.02	131.52	132.36	115.85	133.54	115.32

© FTSE International Ltd 1997. All rights reserved. * for 1997. Government Securities high since compilation: 127.40 (09/01/35), low 49.18 (03/01/75). Fixed Interest high since compilation: 133.87 (21/01/94), low 50.53 (03/01/75). Basis 100: Government Securities 15/10/26 and Fixed Interest 1928. SE activity indices rebased 1974.

UK GILTS PRICES

	Notes	Yield Int	Yield Red	Price £	+ or -	52 week High	52 week Low
Shorts" (Lives up to Five Years)							
Treas 4⅝pc 1998‡‡		3.89	6.98	119	—	[illegible]	[illegible]
Exch 9¾pc 1998		8.72	7.19	100[illegible]	[illegible]	103[illegible]	100[illegible]
Treas 7¼pc 1998‡‡		7.25	7.28	100	—	101[illegible]	100
Treas 15½pc '98‡‡		14.52	7.32	106[illegible]	—	114[illegible]	106[illegible]
Exch 12pc 1998		11.49	7.34	104[illegible]	—	108[illegible]	104[illegible]
Treas 9½pc 1999‡‡		9.28	7.28	102[illegible]	[illegible]	105[illegible]	102[illegible]
Treas Flg Rate 1999‡‡		-	-	100[illegible]	[illegible]	100[illegible]	100
Exch 12¼pc 1999		11.52	7.25	106[illegible]	—	112[illegible]	106[illegible]
Treas 10½pc 1999		10.03	7.20	104[illegible]	[illegible]	109[illegible]	104[illegible]
Treas 6pc 1999‡‡		6.11	7.08	98[illegible]	[illegible]	99[illegible]	98[illegible]
[illegible]							

	Notes	Yield Int	Yield Red	Price £	+ or -	52 week High	52 week Low
Treas 10pc 2003		8.70	6.84	114[illegible]	[illegible]	117[illegible]	111[illegible]
Treas 11½pc 2001-4		10.18	7.07	112[illegible]	[illegible]	116[illegible]	112[illegible]
Treas 10pc 2004		8.59	6.84	116[illegible]	[illegible]	119[illegible]	113
Funding 3½pc 1999-4		3.95	5.59	88[illegible]	[illegible]	90[illegible]	82[illegible]
Conv 9½pc 2004		8.36	6.76	114[illegible]	[illegible]	118[illegible]	109[illegible]
Treas 6¾pc 2004‡‡		6.74	6.73	100[illegible]	[illegible]	102[illegible]	94[illegible]
Conv 9½pc 2005		8.21	6.77	115[illegible]	[illegible]	122[illegible]	110[illegible]
Exch 10½pc 2005		8.57	6.77	122[illegible]	[illegible]	125[illegible]	117[illegible]
Treas 12½pc 2003-5		9.89	6.94	127[illegible]	[illegible]	130[illegible]	124[illegible]
Treas 8½pc 2005‡‡		7.67	6.67	110[illegible]	[illegible]	114[illegible]	104[illegible]
Conv 9½pc 2006		8.10	6.72	126[illegible]	[illegible]	123[illegible]	113[illegible]
Treas 7¾pc 2006‡‡		7.11	6.67	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]							

	Notes	Yield (1)	Yield (2)	Price £	+ or -	52 week High	52 week Low
Index-Linked	(b)						
2½pc '99	[illegible]	2.98	3.56	185[illegible]	[illegible]	187[illegible]	179[illegible]
2½pc '01	(78.3)	3.29	3.50	192[illegible]	[illegible]	193[illegible]	184[illegible]
2½pc '03	(78.8)	3.29	3.46	190[illegible]	[illegible]	190[illegible]	180[illegible]
4⅝pc '04‡‡	(135.6)	3.23	3.42	122[illegible]	[illegible]	123[illegible]	117[illegible]
2pc '06	(69.5)	3.25	3.39	202[illegible]	[illegible]	204[illegible]	189[illegible]
2½pc '09	(78.8)	3.21	3.32	189[illegible]	[illegible]	185[illegible]	170[illegible]
2½pc '11	(74.6)	3.20	3.30	191½	[illegible]	194[illegible]	175[illegible]
2½pc '13	(89.2)	3.19	3.28	156[illegible]	[illegible]	161[illegible]	144[illegible]
2½pc '16	(81.6)	3.18	3.26	171[illegible]	[illegible]	174[illegible]	153[illegible]
2½pc '20	(83.0)	3.20	3.27	165[illegible]	[illegible]	168[illegible]	147[illegible]
[illegible]							

[illegible]

Other Fixed Interest

[illegible]

● "Tap" stock. ‡‡ Tax-free to non-residents on application. [illegible]

CURRENCIES AND MONEY

Won tumbles as Korea ceases defence

MARKETS REPORT

By Simon Kuper

The Bank of Korea temporarily gave up its defence of the won yesterday, allowing the currency to fall below what bank officials called their "Maginot Line" of 1,000 against the dollar.

The currency closed at 1,008.60, the bottom limit of its 2.25 per cent trading band. The band is supposed to remain in place.

The yen rose, helped by new hope for Japanese banks, a large rebound in the Nikkei stock index; and the first warnings from US and Japanese officials about the yen's recent slide.

The government's decision to allow the country's 10th largest bank, Hokkaido Takushoku, to go bust, raised hopes that strong Japanese institutions would no longer be forced to take over weak ones. Gerard Lyons, chief economist at DKB International in London, said there was growing belief that the government would act soon to tackle the problems of Japanese banks.

The Nikkei responded with an 8 per cent jump; which in itself helped the banks, whose shareholdings appear on their balance sheets.

Also yesterday, Hiroshi Mitsuzuka, Japan's finance minister, said after meeting Lawrence Summers, US deputy treasury secretary, that an excessive fall in the yen was not desirable and that the ministry would take steps to prevent it. "We are worried about the recent fall in the yen," he said. Mr Summers later said the US shared this view, adding: "It is clear, as we have said for quite some time, that substantial increases in the Japanese current account surplus are troubling to the US." Eisuke Sakakibara, the senior finance ministry official, said: "In the foreign exchange market, we are prepared to act as appropriate to maintain stability."

However, the comments offered only modest support to the yen. Michael Rosenberg, head of global fixed-income research at Merrill Lynch in New York, said Tokyo and Washington were virtually obliged to say something if they wanted to stop the yen from falling too swiftly. Furthermore, currency strategists warned that the won's latest fall could prompt further slides in the yen. Korean and Japanese cars, semiconductors and other products compete in many export markets. Merrill has raised its 12-month forecast for the dollar against the yen to Y140.

The yen rose Y1.3 against the dollar and Y0.87 against the D-Mark to close in London at Y125.8 and Y72.55 respectively. The dollar edged higher against the D-Mark to DM1.734.

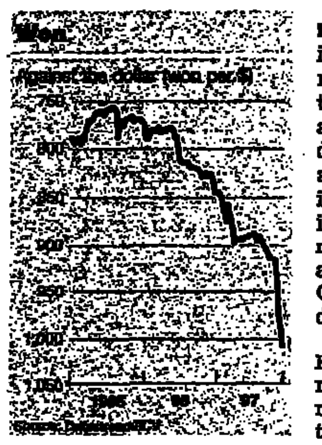
The Canadian dollar remained weak against the US dollar, softening in London to C$1.414, as investors grew impatient waiting for the Bank of Canada to raise interest rates.

■ After world war one, aiming to ensure that the Germans would never invade them again, the French built a "Maginot Line" on the border of Alsace. But Hitler's army bypassed the line, invading through Belgium instead. Several of the Maginot forts held out for weeks after France surrendered. One garrison was gassed to death in its caverns.

So perhaps it was silly for Korean officials to keep referring to the 1,000 won mark against the dollar as the "Maginot Line". Perhaps, however, the problem is more global. Just as the notion of unbridgeable military lines died with the Maginot, so fewer and fewer traders now believe that a central bank can hold its currency where it likes. The psychology of the foreign exchange market has changed since the Asian devaluations, many currency strategists have noted.

■ Dr Mahathir Mohamad, Malaysia's prime minister, has noted the same thing. He has therefore taken to calling for currencies trading to be banned or controlled.

Traders have not worried much so far. That may change. Yesterday Jacques Chirac, French president, said after a meeting with Dr Mahathir: "The excessive speculation by some currency traders should be brought under control. We have to find prudential rules to avoid the law of the jungle, and this is in everybody's interest." He backed the International Monetary Fund's search for ways of controlling "excessive" currency speculation.



■ Pound in New York

Nov 17	—Latest—	— Prev. close —
£ spot	1.6935	1.6925
1 mth	1.6911	1.6901
3 mth	1.6862	1.6851
1 yr	1.6650	1.6631

■ OTHER CURRENCIES

Nov 17	£	$
Czech Rp	55.9320 - 56.0331	33.0470 - 33.0836
Hungary	332.119 - 332.341	196.230 - 196.280
Iran	5079.60 - 5077.50	3000.00 - 3000.00
Kuwait	0.5132 - 0.5135	0.3032 - 0.3033
Poland	5.9266 - 5.9372	3.5030 - 3.5065
Russia	9998.44 - 10004.27	5907.50 - 5908.50
U.A.E.	6.2164 - 6.2193	3.6729 - 3.6731

POUND SPOT FORWARD AGAINST THE POUND

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

† Rates for Nov 14. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. Bid, offer, mid spot rates and forward rates in both this and the Dollar table are derived from THE WM/REUTERS CLOSING SPOT and FORWARD RATE services. Some values are rounded by the F.T. The exchange rates printed in this table are also available on the internet at http://www.FT.com

WORLD INTEREST RATES

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Nov 17		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	18.46	16.24	4.848	1.860	4748	5.465	19.77	494.3	409.0	21.11	3.943	1.652	3.953	2.797	351.7	2.449
Denmark	(DKr)	54.18	10	8.797	2.627	1.008	2573	2.961	10.71	267.8	221.6	11.44	2.137	0.895	2.142	1.515	190.6	1.327
France	(FFr)	61.60	11.37	10	2.986	1.146	2925	3.366	12.18	304.4	251.9	13.00	2.429	1.018	2.435	1.723	216.7	1.508
Germany	(DM)	20.63	3.807	3.349	1	0.384	979.3	1.127	4.078	101.9	84.35	4.353	0.813	0.341	0.815	0.577	72.55	0.505
Ireland	(I£)	53.77	9.923	8.729	2.607	1	2553	2.938	10.63	265.7	219.9	11.35	2.120	0.888	2.125	1.504	189.1	1.317
Italy	(L)	2.106	0.389	0.342	0.102	0.039	100	0.115	0.416	10.41	8.613	0.445	0.083	0.035	0.083	0.059	7.408	0.052
Netherlands	(Fl)	18.30	3.377	2.971	0.887	0.340	868.8	1	3.618	90.44	74.83	3.862	0.722	0.302	0.723	0.512	64.36	0.448
Norway	(NKr)	50.57	9.334	8.211	2.452	0.941	2401	2.764	10	250.0	206.8	10.67	1.994	0.836	1.999	1.414	177.9	1.239
Portugal	(Es)	20.23	3.734	3.285	0.981	0.376	960.6	1.106	4.001	100	82.74	4.270	0.798	0.334	0.800	0.566	71.17	0.495
Spain	(Pta)	24.45	4.513	3.970	1.186	0.455	1161	1.336	4.835	120.9	100	5.161	0.964	0.404	0.967	0.684	86.01	0.599
Sweden	(SKr)	47.38	8.744	7.692	2.297	0.881	2250	2.589	9.368	234.2	193.8	10	1.868	0.783	1.873	1.325	166.7	1.160
Switzerland	(SFr)	25.36	4.681	4.117	1.230	0.472	1204	1.386	5.015	125.3	103.7	5.353	1	0.419	1.003	0.709	89.20	0.621
UK	(£)	60.53	11.17	9.827	2.935	1.126	2874	3.308	11.97	299.2	247.6	12.78	2.387	1	2.393	1.693	212.9	1.482
Canada	(C$)	25.30	4.669	4.107	1.226	0.470	1201	1.382	5.002	125.0	103.5	5.339	0.997	0.418	1	0.707	88.98	0.620
USA	($)	35.75	6.599	5.805	1.734	0.665	1698	1.954	7.070	176.7	146.2	7.547	1.410	0.591	1.414	1	125.8	0.876
Japan	(Y)	28.43	5.247	4.616	1.378	0.529	1350	1.554	5.621	140.5	116.3	6.000	1.121	0.470	1.124	0.795	100	0.696
Ecu	–	40.83	7.536	6.629	1.980	0.759	1939	2.232	8.074	201.8	167.0	8.618	1.610	0.675	1.614	1.142	143.6	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

■ D-MARK FUTURES (IMM) DM 125,000 per DM

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	0.5789	0.5759	–0.0038	0.5772	0.5758	18,145	70,769
Mar	0.5786	0.5788	–0.0040	0.5797	0.5786	106	3,139
Jun	0.5811	0.5811	–	0.5811	0.5811	4	2,868

■ JAPANESE YEN FUTURES (IMM) Yen 12.5m per Yen 100

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	0.7965	0.8001	–	0.8017	0.7998	35,035	138,221
Mar	0.8128	0.8127	+0.0009	0.8138	0.8126	545	2,780
Jun	–	0.8221	–	–	–	89	414

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	0.7136	0.7099	–0.0054	0.7108	0.7083	9,871	51,032
Mar	0.7166	0.7151	–0.0066	0.7175	0.7151	76	2,840
Jun	–	0.7280	–	–	0.7275	2	267

■ STERLING FUTURES (IMM) £62,500 per £

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	1.6880	1.6862	–0.0038	1.6890	1.6850	5,811	58,333
Mar	1.6786	1.6796	–0.0032	1.6800	1.6786	42	674
Jun	–	1.6750	–	–	1.6730	1	74

UK INTEREST RATES

LONDON MONEY RATES

Nov 17	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	7 3/8 - 7	7 3/8 - 7 1/4	7 7/16 - 7 5/16	7 21/32 - 7 9/16	7 13/16 - 7 23/32	7 15/16 - 7 13/16
Sterling CDs	-	-	7 7/16 - 7 1/8	7 9/32 - 7 7/32	7 3/8 - 7 5/16	7 7/16 - 7 3/8
Treasury Bills	-	-	7 1/4 - 7 1/8	7 1/4 - 7 1/8	-	-
Bank Bills	-	-	7 1/4 - 7 1/8	7 5/16 - 7 3/16	7 3/8 - 7 1/4	-
Local authority deps.	7 1/16 - 7	7 1/4 - 7 5/32	7 7/16 - 7 5/16	7 17/32 - 7 7/16	7 3/4 - 7 21/32	7 15/32 - 7 3/4
Discount Market deps	7 1/4 - 7	7 1/4 - 7	-	-	-	-

UK clearing bank base lending rate 7¼ per cent from Nov 6, 1997

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	2½	5½	5	5	4¾

Certs of Tax dep. under £100,000 is 2½pc. Deposits withdrawn for cash 1¼pc. Ave. tender rate of discount on Nov 14. 7.0774pc. ECGD fixed rate Stg. Export Finance. Make up day Oct 31, 1997. Agreed rate for period Nov 26, 1997 to Dec 23, 1997, Scheme III 8.69pc. Reference rate for period Oct 1, 1997 to Oct 31, 1997, Schemes IV & V 7.344pc. Finance House Base Rate 7½pc from Nov 1, 1997

■ THREE MONTH STERLING FUTURES (LIFFE) £500,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	92.33	92.33	-0.01	92.35	92.32	7735	145165
Mar	92.25	92.26	+0.01	92.27	92.25	9025	120713
Jun	92.24	92.26	+0.02	92.27	92.23	4305	106846
Sep	92.34	92.36	+0.02	92.37	92.32	4649	90004
Dec	92.46	92.50	+0.03	92.51	92.46	2630	71259

Also traded on APT. All Open interest figs. are for previous day.

■ SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%

EMS EUROPEAN CURRENCY UNIT RATES

Nov 17	Ecu cen. rates	Rate against Ecu	Change on day	% +/- from cen. rate	% spread v weakest	Div. ind.
Ireland	0.798709	0.757491	+0.000661	–5.16	8.16	35
Italy	1906.48	1933.78	+1.28	1.43	1.14	–10
Finland	5.85424	5.93969	–0.00212	1.46	1.12	–10
Spain	163.826	166.596	+0.029	1.69	0.89	–12
Portugal	197.398	201.384	+0.125	2.02	0.56	–14
Denmark	7.34555	7.51643	+0.00102	2.33	0.26	–16
France	6.45863	6.61351	+0.00027	2.40	0.19	–20
Germany	1.92573	1.97490	+0.00019	2.55	0.04	–25
Belgium	39.7191	40.7355	+0.0061	2.56	0.03	–19
Netherlands	2.16979	2.22592	+0.00017	2.59	0.01	–19
Austria	13.5485	13.8996	+0.0021	2.59	0.00	–19
NON ERM MEMBERS						
Greece	295.269	309.740	–0.37	4.90	–2.20	–
UK	0.793103	0.672867	–0.000679	–15.19	20.96	–

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate. 17/9/92: Sterling suspended from ERM. Adjustment calculated by the Financial Times.

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

Strike Price	CALLS Nov	Dec	Jan	PUTS Nov	Dec	Jan
1.680	1.23	2.51	3.25	0.04	1.49	2.59
1.690	0.48	1.93	2.74	0.29	1.95	2.99

BASE LENDING RATES

COMMODITIES AND AGRICULTURE

Further rise forecast in white pepper prices

By Gary Mead

This year's sizzling price rises in white pepper are likely to get hotter still early next year, as anxiety grows over the persistent severe drought in Indonesia, the world's biggest producer of the pungent spice.

"I've never seen this level of prices before," said Han Herweyer, of Man Producten, the specialist spice trader based in Rotterdam. "It's getting to the point where there may eventually not be any white pepper available."

At the beginning of 1997 white pepper was trading at about $4,900 a tonne, having almost doubled in price since the middle of 1996; by last week prices were $9,600 a tonne. Man Producten expects prices soon to reach $10,000 a tonne.

However, prices yesterday retracted a little, to about $9,200 a tonne, on reports of rainfall in Indonesia.

This small decline is expected to be relatively shortlived, according to David Marchington of the specialist London-based traders Chambers & Knight. "We expect the price to be above $10,000 a tonne by next April as the real shortages between Indonesian crops become apparent," he said.

The recent record prices are driven almost entirely by fundamentals and owe little to speculators taking advantage of poor crops, according to specialists.

They point to fears surrounding next year's crop in Indonesia, which accounts for more than 85 per cent of global white pepper output, as being the main factor. Other significant producers, such as Brazil and China, are not able quickly to make up the shortfall. The bulk of demand is in Europe.

Pepper picker: recent record prices have been driven by fundamentals and owe little to speculators

Veronica Garbutt

The current El Niño weather pattern – a periodic warming of the tropical Pacific Ocean that reverberates globally – is being blamed for a two-month drought that has taken a severe toll on the country's soft commodities, including pepper.

"Indonesia harvests its white pepper in June and July, then normally the rains come," Mr Herweyer said. "But so far this year it has had a bad drought with just a few drizzles recently. The current crop is going to be very late and probably very small." White pepper plants are not robust and will not easily recover from the drought.

At the same time, this year's was the latest in a five-year run of relatively poor white pepper crops. An average Indonesian white pepper crop is between 20,000 and 30,000 tonnes.

A further factor likely to induce yet more price increases is that many holders of large white pepper stocks sold earlier in the year, ironically to take advantage of earlier high prices.

"Nobody really knows, but the talk in the market is that even strong players in Indonesia now have very low stocks as a result of these prices," said Mr Marchington. "I don't see these prices coming back down very much for another 18 months, well after next year's Indonesian crop."

● Trading on India's new international exchange for pepper futures in Cochin got off to a slow start yesterday, with just 7.5 tonnes changing hands. India produces some 60,000 tonnes of pepper a year and exports almost 60 per cent.

Philippines suffers fall in metals revenues

By Justin Marozzi in Manila

Philippine metal revenues fell 20 per cent year-on-year to 8.94bn pesos ($263m) in the first nine months of the year, the government's Mines and Geosciences Bureau said yesterday.

The value of gold produced fell 13 per cent to 6.4bn pesos, silver declined 30 per cent to 60m pesos and copper slipped 36 per cent to 1.8bn pesos.

The bureau blamed the fall on several factors, including depressed metal prices on world markets and disruption to mining operations.

It said the move by Lepanto Consolidated Mining Corp to being a primary gold producer from a copper producer was one reason for the big drop in copper output. But the bureau said it expected local metal production to rise as improvements to Lepanto's Victoria operations take effect.

The Philippines is potentially an attractive mining destination but companies intending to invest have had their efforts undermined by bureaucratic delays and a high-profile accident last year, which have left the sector essentially dormant.

Until this month, the mining industry had been optimistic about prospects of receiving approval for new exploration permits before the end of the year.

However, the passing of a law protecting the rights of indigenous peoples, which appears to conflict with existing mining legislation, has plunged the sector back into uncertainty.

The bureau has 70 applications for exploration licences pending from foreign and local mining groups but executives believe there is little prospect of action before presidential elections in May.

Oil slips on signs of Iraq-UN compromise

MARKETS REPORT

By Gary Mead and Kenneth Gooding

The merest indications of a compromise in the diplomatic confrontation between Iraq and the United Nations were enough to dent crude oil futures yesterday.

The December contract on the New York Mercantile Exchange slipped 69 cents to $20.41 a barrel just before midday. It had earlier bottomed out at $20.30 a barrel.

Dealers on London's International Petroleum Exchange took a similarly downbeat view, knocking December Brent crude down by 50 cents a barrel at one stage, though it later recovered somewhat to $19.75, down 30 cents on the previous close.

Reports that the US might be willing to make some adjustments to Iraq's UN-brokered oil-for-food programme, if Iraq complied with the UN's weapons inspection programme, further depressed the markets.

Gold's price in Europe held above $300 an ounce yesterday, and was "fixed" in London in the afternoon at $303.75. Dealers said that the price was being supported by producers closing out a large number of forward sales contracts.

However, many analysts remained bearish and said that eventually the price could break below $300, and might then go to $285 an ounce.

"Even though there have been a lot of producer buybacks, that is just giving the market a few days' consolidation, then it will probably go down again," said Ted Arnold, analyst at Merrill Lynch. "If it doesn't, it will go sideways for a bit. If the funds get tired and cover their short positions, that might be good for $10 or $15 [an ounce] but then producers would jump in again [and sell]."

Gold was helped to its lowest level for nearly 13 years last month by the recommendation by a Swiss committee that the country's central bank sell 1,400 tonnes from its reserves. The International Monetary Fund yesterday welcomed the idea that Switzerland would abandon gold backing for its currency and come into line with international practice.

Soft commodities drifted on the London International Financial Futures Exchange. The benchmark March contract for cocoa ended £12 lower at £1,043 a tonne, while the January future for coffee slid $9 to $1,645.

Warning on aluminium growth

By Kenneth Gooding, Mining Correspondent

The aluminium industry is not investing enough in new production capacity to keep pace with demand to 2015, the Economist Intelligence Unit suggests in a research report today.

It predicts average London Metal Exchange three-month aluminium prices during 1995-2015 will be $1,615 a tonne. Producers will receive an average of about $1,712 a tonne in 1997 dollars.

This is just above the level of $1,700 a tonne the report suggests is required to make investment in new aluminium smelters viable.

The EIU forecasts that world consumption of primary aluminium (20.7m tonnes in 1996) will grow an average 2.3 per cent a year to 31.8m tonnes in 2015. In the short term, consumption is predicted to increase 4 per cent in 1997, 3.6 per cent next year, 1.9 per cent in 1999 and 2.8 per cent in 2000.

Aluminium supply and demand balance

World primary figures, tonnes p.a.	1996	2000	2005	2010	2015
Required production	20,810	[illegible]	[illegible]	[illegible]	[illegible]
Required capacity	21,905	24,657	27,074	30,116	34,509
Committed capacity	23,543	24,744	24,744	24,744	24,744
Surplus/deficit	1,638	87	-2,330	-5,372	-9,765

Source: The Economist Intelligence Unit

Secondary, or scrap, metal will take a bigger share of consumption, rising from 30 per cent in 1995 to 33 per cent in 2015.

James King, who wrote the report, says: "Our demand forecast indicates that capacity will remain adequate until 2002 but that by 2015 the industry will need to add 9.8m tonnes a year of new capacity beyond that currently committed. We forecast that this can be achieved over the period by opening 20 new smelters and making major expansions at 38 existing smelters.

"All of these projects have been discussed in the industry in recent years. The rate of new smelter construction is not greater than has been achieved in the past 20 years, amounting to an average of one greenfield smelter each year. The smelter projects that have been identified around the world are sufficient to meet the needs, but the rate of investment activity is currently too low to achieve the required expansion."

Expansions of existing low cost smelters can be viable at prices between $1,550 and $1,600 a tonne.

Primary aluminium prices in the short term are expected to remain about $1,650 a tonne before easing in the second half of next year and into 1999, when they will reach a low of $1,450.

Mr King say the primary aluminium industry has undergone a structural change in the past 20 years with the emergence of a large sector of independent producers selling to unrelated customers. Much new capacity will be of this type.

"These trends indicate that the supply of primary aluminium continues to become less flexible to price movements and more fragmented. This places greater onus on some of the larger producers to adjust their production over the economic cycle if they wish to stabilise metal prices."

Aluminium to 2015. The looming shortage. EIU, 44 (0)171 830 1007. £595.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE

(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1636-37	1664-65
Previous	1540-41	1666-67
High/low		1667/1655
AM Official	1630.5-31.0	1659-59.5
Kerb close		1658-59
Open int.	257,691	
Total daily turnover	175,024	

■ ALUMINIUM ALLOY ($ per tonne)

Close	1482-87	1492-95
Previous	1480-90	1492-95
High/low		1495/1490
AM Official	1482-85	1490-91
Kerb close		1490-95
Open int	6,534	
Total daily turnover	2,315	

■ LEAD ($ per tonne)

Close	562-4	577-8
Previous	571.5-72.5	585-86.5
High/low		581/575
AM Official	558-58.5	574.5-75.5
Kerb close		579-80
Open int.	31,230	
Total daily turnover	9,051	

■ NICKEL ($ per tonne)

Close	6135-45	6225-30
Previous	6200-05	6285-90
High/low		6270/6180
AM Official	6105-10	6210-20
Kerb close		6225-30
Open int.	61,605	
Total daily turnover	29,526	

■ TIN ($ per tonne)

Close	5635-45	5615-20
Previous	5620-30	5600-05
High/low	5640/5610	5625/5585
AM Official	5620-25	5595-600
Kerb close		5620-25
Open int.	14,574	
Total daily turnover	4,529	

■ ZINC, special high grade ($ per tonne)

Close	1139-40	1166-67
Previous	1155.5-56.5	1181-82
High/low		1178/1165
AM Official	1142-42.5	1168.5-69.5
Kerb close		1170-71
Open int.	82,897	
Total daily turnover	43,177	

■ COPPER, grade A ($ per tonne)

Close	1945-46	1971-72
Previous	1936-37	1958-59
High/low		1978/1956
AM Official	1930-30.5	1955-56
Kerb close		1966.5-67
Open int.	160,693	
Total daily turnover	94,886	

■ LME AM Official £/$ rate: 1.6885
LME Closing £/$ rate: 1.6925

Spot 1.6940 3 mths: 1.6868 6 mths: 1.6793 9 mths: 1.6719

■ HIGH GRADE COPPER (COMEX)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	89.00	+0.10	89.45	88.90	222	1,969
Dec	89.15	+0.15	89.70	88.50	4,129	29,346
Jan	89.45	+0.10	89.90	89.00	59	1,679
Feb	89.40	+0.10	89.90	89.20	116	1,457
Mar	89.45	-	89.90	89.00	4	12,559
Apr	89.50	-0.10	89.70	89.60	110	1,295
Total					7,111	66,904

PRECIOUS METALS

■ LONDON BULLION MARKET
(Prices supplied by N M Rothschild)

Gold(Troy oz)	$ price	£ equiv	SFr equiv
Close	303.60-304.20		
Opening	303.90-304.20		
Morning fix	303.00	179.40	428.75
Afternoon fix	303.75	179.42	428.23
Day's High	304.70-305.00		
Day's Low	302.20-302.50		
Previous close	302.20-302.70		

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month ....3.40 6 months 3.55
2 months ....3.39 12 months 3.79
3 months 3.42

Silver Fix	p/troy oz.	US cts equiv.
Spot	304.20	513.50
3 months	307.70	517.15
6 months	311.10	520.60
1 year	317.95	527.55
Gold Coins	$ price	£ equiv.
Krugerrand	307-310	181-183
Maple Leaf	-	-
New Sovereign	72-75	43-44

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	304.1	+0.4	-	-	-	-
Dec	304.7	+0.4	305.5	303.2	54,935	102.0k
Feb	305.9	+0.4	306.5	304.7	7,790	40,334
Apr	307.9	+0.4	308.4	306.8	809	8,193
Jun	310.0	+0.4	310.5	308.7	1,014	11,169
Aug	312.1	+0.4	312.4	312.4	136	4,816
Total					65,342	219,010

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

Jan	385.5	+1.5	386.5	382.0	2,430	10,564
Apr	382.5	+1.5	383.5	381.5	193	1,637
Jul	379.5	+1.5	377.0	377.0	14	98
Total					2,637	12,299

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

Dec	206.80	-0.70	207.50	205.20	218	2,686
Mar	204.80	+0.30	204.50	203.00	154	1,527
Jun	201.30	+0.30	-	-	6	117
Sep	198.30	+0.30	-	-	-	2
Total					378	4,332

■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

Nov	511.0	+3.8	-	-	48	35
Dec	511.8	+3.8	515.5	508.5	26,812	48,353
Jan	514.1	+4.0	515.5	515.5	2	27
Mar	518.2	+4.3	521.5	515.0	4,107	31,386
May	520.3	+4.3	524.0	520.5	1,067	2,735
Jul	522.5	+4.3	525.0	521.5	80	3,807
Total					32,242	95,827

ENERGY

■ CRUDE OIL NYMEX (1,000 barrels, $/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Dec	20.40	-0.60	20.92	20.30	51,530	59,154
Jan	20.64	-0.52	21.06	20.45	44,349	94,162
Feb	20.66	-0.46	21.10	20.55	12,294	42,307
Mar	20.66	-0.35	20.87	20.50	5,707	23,597
Apr	20.48	-	20.60	20.48	1,612	16,616
May	20.41	-0.32	20.41	20.41	1,257	19,751
Total					120,684	417,506

■ CRUDE OIL IPE ($/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Jan	19.61	-0.44	19.78	19.55	17,340	70,625
Feb	19.51	-0.39	19.62	19.47	10,851	37,823
Mar	19.37	-0.37	19.46	19.36	1,186	7,769
Apr	19.21	-0.37	19.21	19.21	200	5,633
May	19.15	-0.28	19.15	19.15	4	5,681
Jun	18.90	-0.39	-	-	-	9,788
Total					n/a	n/a

■ HEATING OIL NYMEX (42,000 US galls; c/US galls)

	Latest price	Day's change	High	Low	Vol	Open int
Dec	58.35	-1.19	59.52	58.00	22,555	46,039
Jan	58.85	-0.41	59.90	58.50	9,504	34,824
Feb	58.90	-1.11	60.00	58.65	3,587	15,512
Mar	58.00	-1.01	58.25	57.80	627	9,870
Apr	56.40	-0.91	56.50	56.30	424	6,077
May	54.90	-0.91	55.00	54.80	152	4,020
Total					37,282	128,341

■ GAS OIL IPE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	179.50	-4.25	182.00	179.50	7,676	30,101
Jan	179.75	-4.00	181.00	179.75	3,271	14,514
Feb	179.25	-3.25	180.00	179.00	1,251	10,735
Mar	177.00	-2.25	177.50	177.00	137	6,707
Apr	174.25	-2.25	-	-	-	3,840
May	172.00	-2.00	-	-	-	1,883
Total					13,412	85,051

■ NATURAL GAS IPE (1,000 therms; pence per therm)

Dec	15.170	-0.150	15.220	15.150	275	1,180
Jan	19.490	-0.180	19.530	19.490	150	2,625
Total					870	11,655

■ NATURAL GAS NYMEX (10,000 mmBtu.; $/mmBtu.)

	Latest price	Day's change	High	Low	Vol	Open int
Dec	2.975	-0.054	3.100	2.950	41,653	43,536
Jan	2.995	-0.057	3.110	2.970	19,812	43,055
Feb	2.780	-0.032	2.865	2.765	8,217	24,454
Mar	2.520	-0.012	2.570	2.510	2,990	18,248
Apr	2.285	-0.005	2.320	2.280	2,090	11,581
May	2.190	-0.015	2.225	2.190	818	8,801
Total					78,229	238,880

■ UNLEADED GASOLINE
NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Dec	59.80	-1.19	60.75	59.40	17,148	28,873
Jan	59.80	-1.06	60.50	59.20	8,524	22,631
Feb	59.75	-0.99	59.95	59.50	2,274	11,744
Mar	60.25	-0.82	60.35	60.10	1,881	7,140
Apr	62.30	-1.12	-	-	779	[illegible]
May	62.20	-0.90	-	-	416	[illegible]
Total					32,192	[illegible]

GRAINS AND OIL SEEDS

■ WHEAT LIFFE (100 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	80.45	+0.70	80.45	80.00	7	117
Jan	82.50	+0.75	82.50	82.00	50	2,479
Mar	84.50	+0.80	84.50	83.70	65	2,911
May	86.50	+0.80	86.50	85.70	55	2,289
Jul	88.50	+0.75	88.05	87.70	30	205
Total					207	8,186

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

Dec	345.50	+5.50	346.75	339.00	11,953	36,190
Mar	360.75	+5.50	362.00	355.00	8,429	37,724
May	368.50	+4.25	370.00	363.75	685	6,788
Jul	374.25	+5.25	374.50	368.50	1,518	16,747
Sep	379.00	+4.25	379.00	379.00	61	273
Dec	389.00	+5.50	389.00	384.50	237	3,207
Total					22,889	108,999

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

Dec	277.75	+5.75	278.50	271.00	41,409	137,848
Mar	286.50	+5.00	286.75	281.00	24,208	123,423
May	293.00	+5.25	293.50	286.50	3,633	33,701
Jul	296.50	+5.25	297.00	290.50	4,701	45,776
Sep	288.00	+4.75	288.00	283.50	216	4,447
Dec	286.75	+3.75	287.00	282.50	1,891	29,507
Total					76,094	376,259

■ BARLEY LIFFE (100 tonnes; £ per tonne)

Nov	75.00	+0.25	-	-	-	28
Jan	76.75	+0.25	-	-	-	1,268
Mar	79.00	+0.25	79.00	78.50	7	556
May	80.75	+0.25	-	-	-	23
Sep	81.75	+0.50	-	-	-	6
Total					7	1,886

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

Nov	733.75	+6.25	734.00	722.00	4,075	4,436
Jan	726.25	+2.25	727.50	716.50	32,970	67,998
Mar	728.25	+2.00	729.50	718.50	5,061	26,611
May	731.75	+1.50	732.00	721.50	2,376	20,378
Jul	733.25	+2.00	733.50	724.00	3,238	20,897
Aug	728.00	+1.00	728.00	720.00	298	1,314
Total					48,838	149,154

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

Dec	26.29	-0.28	26.69	26.02	8,735	42,532
Jan	26.48	-0.26	26.90	26.20	6,048	36,793
Mar	26.54	-0.28	26.88	26.28	3,312	24,067
May	26.61	-0.23	26.87	26.30	2,091	11,406
Jul	26.58	-0.19	26.82	26.22	1,434	8,927
Aug	26.21	-0.19	26.35	25.95	297	1,294
Total					21,961	127,587

■ SOYABEAN MEAL CBT (100 tons; $/ton)

Dec	231.4	-0.1	231.7	227.5	14,515	34,150
Jan	226.4	+0.2	228.9	223.2	8,756	27,566
Mar	222.5	-	223.7	220.5	4,637	25,122
May	220.0	-0.5	220.5	217.8	2,955	17,103
Jul	220.8	+0.1	220.8	218.0	2,809	12,340
Aug	220.0	-0.1	220.5	216.5	422	2,966
Total					34,214	125,475

■ POTATOES LIFFE (20 tonnes; £ per tonne)

Mar	99.0	-3.0	-	-	-	-
Apr	130.5	-5.5	132.0	125.1	99	1,116
May	140.5	-5.5	-	-	-	22
Jun	150.5	-5.5	-	-	-	-
Nov	62.0	+2.0	-	-	-	3
Total					99	1,163

■ FREIGHT (BIFFEX) LIFFE ($10/index point)

Nov	1195	-5	1190	1186	6	478
Dec	1190	-15	1185	1180	11	259
Jan	1225	-15	1225	1220	16	602
Apr	1305	-10	1305	1300	21	505
Jul	1170	-	-	-	-	116
Total					54	2,010

	Close	Prev
BFI	1234	1242

PULP AND PAPER

■ PULPEX OMLX ($/t; 24 air dry tons)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	549.00	+2.00	549.00	549.00	5	282
Mar	569.00	+1.00	569.00	569.00	5	363
Total					10	645

FUTURES DATA
All futures data supplied by CMS.

Tea from The Tea Brokers' Association
There was improved demand for tea. Landed: Assams met more competition, with prices firm and occasionally dearer for the better liquoring types. East Africans sold well, particularly brighter Burundis which appreciated 4 pence to 8 pence. Offshore: There was fairly good demand at around the last levels. Quotations for this sale: Landed: best available 182p; good 165p; good medium 155p; medium 145p; low medium 125p. The highest price realised this week was 182p for a Burundi PF1.

SOFTS

■ COCOA LIFFE (10 tonnes; £/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	1016	-13	1028	1016	1,001	41,825
Mar	1042	-14	1054	1042	1,483	37,533
May	1062	-13	1073	1062	158	23,983
Jul	1080	-13	1089	1081	263	10,451
Sep	1098	-12	1105	1099	601	19,550
Dec	1112	-13	1122	1116	1,357	21,879
Total					6,785	261,778

■ COCOA CSCE (10 tonnes; $/tonnes)

Dec	1581	-18	1595	1577	3,012	1,782
Mar	1615	-18	1630	1613	3,551	46,112
May	1643	-17	1655	1641	604	17,039
Jul	1665	-17	1676	1665	135	4,077
Sep	1685	-17	1691	1690	144	5,463
Dec	1704	-17	-	-	37	9,093
Total					7,483	94,876

■ COCOA (ICCO) (SDR's/tonne)

Nov 14	Price	Prev. day
Daily	1242.09	1248.26

■ COFFEE LIFFE (5 tonnes; $/tonne)

Nov	1646	-12	1642	1635	167	1,257
Jan	1645	-9	1654	1625	1,978	17,794
Mar	1630	-14	1639	1612	920	12,487
May	1624	-12	1625	1610	139	3,334
Jul	1624	-12	-	-	-	1,027
Sep	1632	-12	-	-	-	409
Total					3,204	36,338

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

Dec	159.30	-4.10	165.00	159.00	5,498	3,916
Mar	152.75	+1.30	155.00	151.50	5,646	10,783
May	148.00	+2.00	149.50	148.50	1,012	3,419
Jul	143.90	+2.65	144.50	142.00	325	2,088
Sep	140.00	+2.75	140.00	139.50	69	1,075
Dec	136.25	+2.60	138.00	134.00	84	857
Total					12,682	22,215

■ COFFEE (ICO) (US cents/pound)

Nov 14		Prev. day
Comp. daily	120.74	120.26
15 day average	115.55	115.29

■ WHITE SUGAR LIFFE (50 tonnes; $/tonne)

Mar	315.7	-1.1	317.2	316.5	491	20,011
May	319.8	-0.5	320.5	320.0	161	4,368
Aug	321.0	-	321.3	321.0	75	3,963
Oct	314.8	-0.5	-	-	-	3,403
Dec	314.8	+0.5	-	-	-	1,095
Total					747	32,873

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

Mar	12.31	-0.03	12.35	12.29	8,100	120.8k
May	12.26	-0.03	12.28	12.26	2,876	31,707
Jul	12.00	-0.01	12.03	12.00	1,464	23,629
Oct	11.85	-0.01	11.87	11.83	1,145	22,158
Mar	11.67	-	11.68	11.67	120	6,312
May	11.61	-	11.65	11.66	20	849
Total					13,745	205,786

■ COTTON NYCE (50,000lbs; cents/lbs)

Dec	70.82	-0.07	71.00	70.71	8,646	28,325
Mar	71.87	-0.14	72.10	71.82	6,074	27,039
May	72.98	-0.12	73.15	72.90	1,369	11,740
Jul	73.90	-0.03	74.05	73.84	437	12,126
Oct	75.10	-0.08	75.10	75.00	5	890
Dec	76.34	-0.01	75.35	75.11	60	9,832
Total					16,660	90,283

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

Jan	84.70	+2.55	84.80	82.75	2,042	23,876
Mar	87.70	+2.70	87.75	85.60	1,610	12,110
May	90.75	+2.65	90.75	88.65	187	3,274
Jul	93.50	+2.40	93.50	92.25	138	1,598
Sep	96.00	+2.40	94.00	94.00	1	856
Nov	98.25	+2.15	-	-	10	721
Total					3,988	42,940

VOLUME DATA
Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears. Volume & Open interest totals are for all traded months.

INDICES

■ Reuters (Base: 18/9/31 = 100)

Nov 17	Nov 14	month ago	year ago
1813.0	1819.2	1852.4	1870.6

■ CRB Futures (Base: 1967 = 100)

Nov 14	Nov 13	month ago	year ago
241.72	243.14	-	-

■ GSCI Spot (Base: 1970 = 100)

Nov 14	Nov 13	month ago	year ago
n/a	204.48	205.11	208.22

LME WAREHOUSE STOCKS (tonnes)

Aluminium	-5,325	to	717,925
Aluminium alloy	-1,120	to	44,480
Copper	-1,575	to	341,450
Lead	+2,075	to	[illegible]
Nickel	-426	to	[illegible]
Zinc	+4,875	to	[illegible]
Tin	+105	to	[illegible]

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	67.425	+0.225	67.450	66.900	5,171	31,973
Feb	68.750	-0.125	69.050	68.550	3,131	35,414
Apr	72.225	-0.125	72.550	72.050	936	16,775
Jun	70.425	-0.100	70.575	70.300	694	11,554
Aug	70.500	+0.025	70.725	70.375	350	4,260
Oct	72.200	-0.025	72.350	72.050	46	1,225
Total					10,328	101,207

■ LEAN HOGS CME (40,000lbs; cents/lbs)

Dec	62.600	+0.175	62.775	62.150	4,573	15,689
Feb	62.425	-0.375	62.675	62.050	3,584	13,522
Apr	58.825	+0.200	58.975	58.550	919	5,378
Jun	65.900	+0.100	65.950	65.650	232	3,606
Jul	64.725	+0.175	64.800	64.450	20	1,298
Aug	62.425	+0.125	62.550	62.300	2	216
Total					9,337	40,234

■ PORK BELLIES CME (40,000lbs; cents/lbs)

Feb	59.250	-0.375	60.400	58.500	1,549	6,296
Mar	58.375	-0.400	59.500	57.650	150	1,044
May	58.600	-0.950	60.200	58.600	62	404
Jul	59.900	-1.450	63.000	59.300	12	358
Aug	56.300	-0.750	58.400	56.300	1	18
Total					1,773	8,142

LONDON TRADED OPTIONS

Strike price $ tonne — Calls — — Puts —

■ ALUMINIUM (99.7%) LME	Dec	Mar	Dec	Mar
1625	34	76	13	40
1650	20	63	25	51
1675	11	51	40	54
■ COPPER (Grade A) LME	Dec	Mar	Dec	Mar
1950	39	86	32	68
2000	18	65	61	94
2050	69	46	100	125
■ COFFEE LIFFE	Jan	Mar	Jan	Mar
1600	5	86	24	41
1650	1	59	66	64
1700	-	41	119	96
■ COCOA LIFFE	Dec	Mar	Dec	Mar
1000	19	71	3	29
1025	5	57	14	40
1050	1	47	35	55
■ BRENT CRUDE IPE	Jan	Feb	Jan	Feb
1900	-	-	37	37
1950	-	-	57	-
2000	-	-	-	-

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel) +or-

Dubai	$18.29-8.36w	-0.605
Brent Blend (dated)	$19.33-9.37	-0.78
Brent Blend (Jan)	$19.33-9.35	-0.735
W.T.I.	$20.38-0.40w	-0.82

■ OIL PRODUCTS NWE prompt delivery CIF (tonne)

Premium Gasoline	$197-200	
Gas Oil	$183-186	-3.5
Heavy Fuel Oil	$104-106	
Naphtha	$194-196	-5
Jet fuel	$203-206	-2
Diesel	$193-195	-3.5

■ NATURAL GAS (Pence/therm)

Bacton (Dec)	15.10-15.20	-0.15

Petroleum Argus. Tel. London (0171) 359 8792

■ OTHER

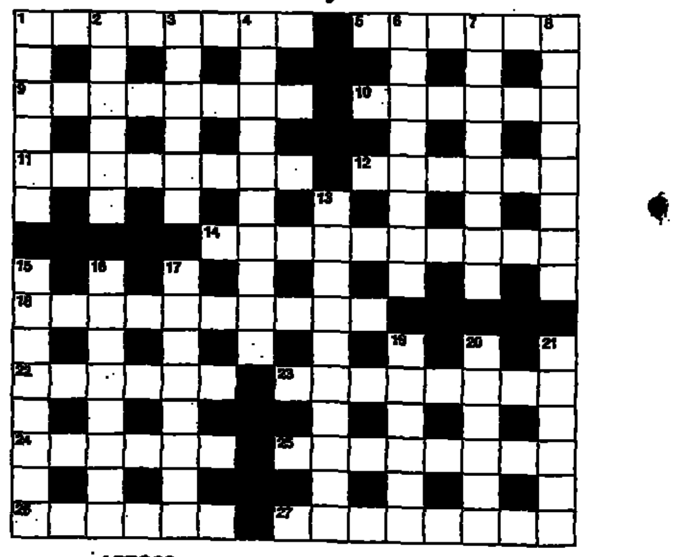
Gold (per troy oz)‡	$303.85	+1.40
Silver (per troy oz)‡	516.00c	+7.00
Platinum (per troy oz.)	$386.00	+2.00
Palladium (per troy oz.)	$207.00	+1.00
Copper	91.0c	+1.0
Lead (US prod.)	45.00c	
Tin (Kuala Lumpur)	16.09r	-0.07
Tin (New York)	263.5	+1.0
Cattle (live weight)	92.91p	-1.20*
Sheep (live weight)	98.86p	-7.47*
Pigs (live weight)†	83.01p	-7.24*
Lon. day sugar (raw)	$280.30	-1.40
Lon. day sugar (wte)	$306.60	+0.10
Barley (Eng. feed)	Unq	
Maize (US No3 Yellow)	£108.00	
Wheat (US Dark North)	Unq	
Rubber (Dec)♥	54.50p	
Rubber (Jan)♥	54.50p	
Rubber (KL RSS No1)	276.0z	-3.0
Coconut Oil (Phil)§	632.5y	+2.5
Palm Oil (Malay.)§	545.0w	+5.0
Copra (Phil)§	$417.5	
Soyabeans (US)	188.0z	+1.0
Cotton Outlook'A' Index	77.15c	+0.10
Wooltops (64s Super)	399p	-1

[illegible]

JOTTER PAD

CROSSWORD

No.9,535 Set by DARCY



ACROSS

1 Not working with computers, exhausted and pessimistic (8)
5 Real leader's AWOL, it's true (6)
9, 10 Its layout should be more effective – hard lines! (8,6)
11 Cockney's shout, with no booze about? Only joking! (8)
12 Odd phrase for a mountaineer (6)
14 Approximately where there's a bump in the road? (10)
18 Enliven term at Oxford, mostly covered by dodgy exeat (10)
22 One of the rodents that made Noah's Ark? (6)
23 Fitzgerald maybe rejected bloodthirsty story (8)
24, 25 Financial inducements offered for unorthodox performance? (6,8)
26 What's left to go back in flimsy cage – lapwings? (6)
27 Walk out, given a lift, and start playing (6,2)

DOWN

1 Well over half of moral lapses in the 60s for example? (6)
2, 16 Checking what's available in software, optimistic about program's origin (6,8)
3 A regular imbiber, but clever .... (6)
4 .... making fun of us, rather late in the pub? (5,5)
6 Representing the workers? It may go to one's head (5-3)
7, 20 Hidden agenda in writer's last volume? I tore it to pieces (8,6)
8 At first, yobbos used to be in 4 to cause devastation (3,5)
13 Part in serial covering regular expenditure? (10)
15 Like retaliation in Gulf – almost never disorganised (8)
16 See 2 down
17 Such adverse reaction may cause ill-feeling (8)
19 Enemy routed – one from the Gulf? (6)
20 See 7 down
21 Aromatic herb used in homeopathy's soporific (6)

Solution to Saturday's prize puzzle on Saturday November 29.
Solution to yesterday's prize puzzle on Monday December 1.

FT MANAGED FUNDS SERVICE

Offshore Funds

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

OFFSHORE AND OVERSEAS

BERMUDA (FSA RECOGNISED)

BERMUDA (REGULATED)(**)

GUERNSEY (FSA RECOGNISED)

GUERNSEY (REGULATED)(**)

IRELAND (FSA RECOGNISED)

IRELAND (REGULATED)(**)

ISLE OF MAN (FSA RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (FSA RECOGNISED)

JERSEY (REGULATED)(**)

LUXEMBOURG (FSA RECOGNISED)

Offshore Funds and Insurances

FT MANAGED FUNDS SERVICE

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BAii Asset Management Ltd - Contd.

Bank Von Ernst & Cie AG

Frontrunner I (u)

Morgan Stanley Sicav - Contd.

ACM Offshore Funds - Contd.

Credit Suisse Asset Mgmt Funds - Contd.

Merrill Lynch Asset Management - Contd.

Tower Fund

Tweedy, Browne Value Funds

Unico Financial Services SA Lux

Friends Provident International

Generali International Limited

OFFSHORE INSURANCES

LUXEMBOURG (REGULATED)(**)

[illegible]

FT MANAGED FUNDS SERVICE

Offshore Insurances and Other Funds

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OTHER OFFSHORE FUNDS

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

	Notes	Price	+ or -	52 week high	52 week low	Mkt Cap£m	Yld Gr's	P/E
Allied Domecq		528	+4	545	407½	5,476	4.8	13.1
Bulmer (HP)		428	—	625	385	221.8	4.3	11.7
Burn St Dist		45½	—	79½	40½	27.8	9.1	16.2
Glenmorangie A		975	—	1040	795	132.6	1.7	24.1
B		1002½		1140	1002½	40.1	0.8	49.6
Grand Met		573	+13	638	425½	12,113	3.3	18.4
Guinness		572	+16	639½	424	10,845	3.4	15.7
Highland		314	—	380	280	418.9	3.6	14.2
5¼pc Cnv Bds		92¼	—	99½	85½	45.2	6.2	—
Kirin Y		488¾	+25	654½	435¾	4,844	[illegible]	—
Matthew Clark		221½	—	336	213	198.0	13.5	6.6
Merrydown		52½	—	112½	51½	5.72	7.4	13.0
Seagram C$		£20	-½	£25½	£19½	5,449	1.4	—

BANKS, RETAIL

BREWERIES, PUBS & REST

BUILDING & CONSTRUCTION

BUILDING MATS. & MERCHANTS

CHEMICALS

CHEMICALS - Cont.

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ENGINEERING

ENGINEERING - Cont.

ENGINEERING, VEHICLES

ENGINEERING, VEHICLES - Cont.

EXTRACTIVE INDUSTRIES

EXTRACTIVE INDUSTRIES - Cont.

FOOD PRODUCERS

GAS DISTRIBUTION

HEALTH CARE

HEALTH CARE - Cont.

HOUSEHOLD GOODS

INSURANCE

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Cont.

INV TRUSTS SPLIT CAPITAL

صكتا من الاجل

LONDON SHARE SERVICE

OTHER INVESTMENT TRUSTS

[illegible]

INVESTMENT COMPANIES

[illegible]

LEISURE & HOTELS

[illegible]

LIFE ASSURANCE

[illegible]

MEDIA

[illegible]

MEDIA - Cont.

[illegible]

OIL EXPLORATION & PRODUCTION

[illegible]

OIL, INTEGRATED

[illegible]

OTHER FINANCIAL

[illegible]

PAPER, PACKAGING & PRINTING

[illegible]

PHARMACEUTICALS

[illegible]

PROPERTY

[illegible]

PROPERTY - Cont.

[illegible]

RETAILERS, FOOD

[illegible]

RETAILERS, GENERAL

[illegible]

RETAILERS, GENERAL - Cont.

[illegible]

SUPPORT SERVICES

[illegible]

SUPPORT SERVICES - Cont.

[illegible]

TELECOMMUNICATIONS

[illegible]

TEXTILES & APPAREL

[illegible]

TOBACCO

[illegible]

TRANSPORT

[illegible]

WATER

[illegible]

AIM

[illegible]

AIM - Cont.

[illegible]

AMERICANS

[illegible]

CANADIANS

[illegible]

SOUTH AFRICANS

	Notes	Price	+ or -	52 week high	52 week low	Mkt Cap£m	Yld Gr's	P/E
Anglo Am Ind R		£22½	—	*£27⅞	£20¼	1,860	2.9	♦
Barlow	♦†	£8¼	+⅛	867	752	1,141	2.4	12.8
Gold Flds Prop R		128½	-1¼	197	120½	12.3	8.6	10.2
SA Brews	†	£14¾	+⅛	£23¾	£13⅝	4,329	2.5	-
Standard Bank		£25⅜	-⅜	238	£21	3,874	2.1	-
Tiger Oats		840	—	1100	790	1,280	2.3	♦
Tongaat-Hulett		727¼	+1	780	710	708.2	2.4	♦

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service are delivered by Extel, part of Financial Times Information.

Company classifications are based on those used for the FTSE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. For FTSE 100 Index constituents and reserves marked † in the Trading Volume table on the LSE page, last trade prices at or prior to 4:30pm market close are shown, as these shares are now traded on the Stock Exchange Electronic Trading System ("SETS"). Highs and lows are based on intra-day mid-prices/last trades over a rolling 52 week period.

Where stocks are denominated in currencies other than sterling, this is indicated after the name. Prices shown for some of these foreign securities are converted into sterling from latest available local Stock Exchange prices.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Market capitalisation shown is calculated separately for each line of stock quoted.

Earnings used in calculations are based on IIMR "Headline Earnings" formula.

Price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures.

Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- * Highs and lows marked thus have been adjusted to allow for capital changes
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ♦ Figures or report awaited
- ♦ Rule 2.1(a)(iv) Overseas Incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below.
- ‡‡ Rule 4.2(a) Irish incorporated non-listed companies.
- # Price at time of suspension
- ¶ Indicated dividend yield after pending scrip and/or rights issue
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend yield; p/e based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Yield based on annualised dividend
b Figures based on prospectus or other official estimates.
g Assumed dividend yield after rights issue.
k Assumed dividend yield after scrip issue.
n Rights issue pending
q Earnings based on preliminary figures.
s Dividend yield excludes a special payment.
t Indicated dividend yield, p/e ratio based on latest annual earnings.
u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings
z Dividend yield includes a special payment
F Yield based on prospectus or other official estimates for 1996-97.
G Assumed yield after pending scrip and/or rights issue.
H Yield based on prospectus or other official estimates for 1997.
K Yield based on prospectus or other official estimates for 1998
L Estimated annualised yield, p/e based on latest annual earnings.
M Yield based on prospectus or other official estimates for 1997-98.
N Dividend is paid in whole or part as a FID (Foreign Income Dividend)
R Forecast annualised yield, p/e based on prospectus or other official estimates.
W Pro forma figures.
Z Dividend yield to date.

Abbreviations:
xd ex dividend;
xc ex scrip issue;
xr ex rights;
xa ex all;
xf ex capital distribution.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1425 a year for each security shown, subject to the Editor's discretion

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LONDON STOCK EXCHANGE

Asian recovery gives Footsie 125-point lift

MARKET REPORT

By Peter John

A strong recovery in Asian markets sent London up sharply yesterday.

The FTSE 100 index jumped 3 per cent minutes after the start of trading following a surge of buying in the futures market.

It drifted back during the morning but never fell to earth. And a strong early showing by the Dow Jones Industrial Average, spurred by industrial production data that reinforced the benign inflationary climate, helped Footsie climb back towards its initial peak and close 125.2 higher at 4,867.0.

The impetus for recovery came from Hong Kong and Japan. The Nikkei was driven almost 8 per cent higher by hope that authorities were ready to take action to help the ailing financial sector following the public bailout of Hokkaido Takushoku Bank depositors. However, stocks exposed to the Pacific Rim – HSBC, Standard Chartered and Cable & Wireless – did not lead the market rise.

Instead there was a broad-based fillip for international traders – albeit on slim volume – with extra encouragement provided by British Steel. Figures from the company, which has been hit hard by the strength of sterling, were a relief even though rumours of restructuring were not confirmed.

By the end of the day, Footsie may have been nearly 9 per cent below its early October peak but it was well above the end of year forecasts that strategists predicted in January.

Nevertheless, it was too low for Dresdner Kleinwort Benson, which published research suggesting that concentration on traditional valuation methods has left fund managers unable to unlock the value in UK equities.

"Certain sectors' ratings (relative to their forecast growth) seem superficially extreme," says the broker. "We believe that not only are they justified on grounds of earnings quality but we expect these quality considerations to become even more important."

The broker has looked very closely at UK institutional weightings compared to the holdings of US and European funds.

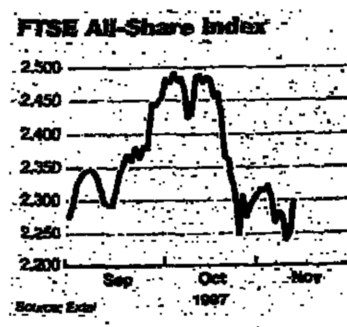
For example, data supplied by Citywatch shows US investors are massively overweight in pharmaceuticals stocks, which have outperformed the FTSE All Share index by almost 10 per cent since the start of 1996. However UK funds are underweight in pharmaceuticals while they have become increasingly heavily weighted in underperformers such as engineers and paper and packaging.

Dresdner believes the market is fairly valued, bordering on cheap, and has held its end of year target at 5,200.

While Footsie saw the most dramatic gains, the FTSE 250 lifted 39.3 to 4,625.8. However, the SmallCap ended relatively flat with a rise of only 1.5 to 2,288.1. Overall turnover was only 585m shares by 6pm.

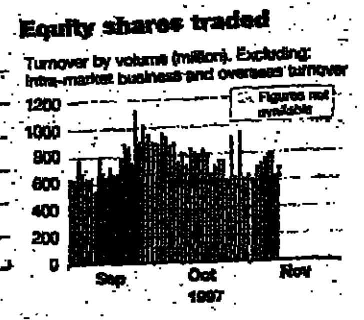
The thin volume reflected the lack of weight behind yesterday's market rise. Strategists will be looking closely at tomorrow's retail sales data for clues about further potential.

FTSE All-Share Index



Equity shares traded

Turnover by volume (million). Excluding: Intra-market business and overseas turnover



Indices and ratios

FTSE 100	4867.0	+125.2	FT 30	3162.8	+69.3
FTSE 250	4625.8	+39.3	FTSE Non-Fins p/e	19.73	19.27
FTSE 350	2349.4	+52.5	FTSE 100 Fut Dec	4910.0	+137.0
FTSE All-Share	2299.43	+48.09	10 yr Gilt yield	6.70	6.72
FTSE All-Share yield	3.37	3.44	Long gilt/equity yld ratio	1.98	1.94

Best performing sectors

1 Oil Integrated +4.3
2 Insurance +3.6
3 Mineral Extraction +3.6
4 Pharmaceuticals +3.3
5 Food Producers +3.1

Worst performing sectors

1 Textiles & Apparel -0.4
2 Health Care -0.0
3 Retailers: Food -0.0
4 Distributors +0.1
5 Paper, Pckg & Printing +0.3

Russian deals boost oils

By Joel Kibazo and Martin Brice

A spate of Russian deals triggered heavy buying in leading oil issues sending the sector sharply ahead and brushing aside falls in crude oil prices as tensions in Iraq eased.

Anglo-Dutch giant Shell led the way when it announced it had clinched a 50-50 joint venture with Gazprom, the world's largest gas company, to develop gas projects in Russia.

The new company is expected to produce around 500,000 barrels a day of oil and gas, with the first project expected to be the development of oil and gas from a section of the Zapolyarnoye field in western Siberia.

As part of that deal, Shell committed itself to invest up to $1bn in a convertible bond to be issued by Gazprom.

In a separate deal, Shell is to combine with Gazprom and Russian oil company Lukoil to bid for Rosneft, another oil company being privatised.

The deals sent the company's shares soaring. By the end of the trading day Shell had risen 17¾ or 4.3 per cent to 418½p in heavy trade that brought volume of 11m.

John Toalster at SGST said: "This is a mega-deal for two mega-companies and provides a valuable additional leg for Shell in the opening years of the next century."

The team at SGST has been lukewarm on the stock but news of the deals turned them more positive on Shell, upgrading their stance on the stock from "overvalued" to "undervalued".

Shell was not alone in strengthening its Russian ties. In the second half of the session, BP said it planned to buy a 10 per cent stake in Sidanco, Russia's fourth largest integrated oil company, for $571m.

The UK oil giant said in addition it was to acquire 45 per cent of Sidanco's 60 per cent interest in Russia, an Irkutsk-based company with major oil and gas discoveries in eastern Siberia.

BP said, in return for this interest, it will meet $172m of the future costs of the appraisal programme for the Russian discoveries. BP closed 36 ahead at 874p. Volume was 6.4m.

Steel recovery

British Steel rose 10 immediately after pleasing interims but came off its highs to close up 5 at 150p. Volume of 7.6m made it one of the day's busiest stocks.

At these levels, the shares yield about 7 per cent, about twice the market average.

Analysts were upgrading forecasts. Paul Compton, at Merrill Lynch, increased his full-year forecast from £250m to £300m, with earnings per share of 10.5p, putting the stock on a 15 per cent discount to the market.

Mr Compton, who recently lifted his recommendation from "neutral" to "accumulate", said: "The shares are good value at this level but we do need to see sterling weakness for the shares to outperform."

Sentiment was helped by a combination of factors. The dividend was maintained at 3p while the effect of the strong pound was less than expected. The company also made bullish comments on cost-cutting and incoming orders.

The company said plans for a £500m steel mill in Indonesia were on hold until the recent financial turbulence had ended.

FirstBus eased to 235p despite a 47 per cent rise in sales, a 35 per cent rise in profits and a 22 per cent dividend increase.

The shares were the best performing FTSE 250 stock last week and stood at 197p last month.

Analysts pointed to the 1 per cent rise in passenger numbers, which have been in long-term decline.

FirstBus has 20 per cent of the UK bus market, and Nigel Davies at Panmure Gordon said the rise in passenger numbers could be "the start of something sustainable," with the government's transport white paper likely to encourage use of public transport.

National Express benefited from the positive sentiment and gained 8¼ to 601½p, while Stagecoach rose 27½ to 841p in thin volume. The shares have benefited recently from a swing to defensive domestic stocks because of the strong pound, which has seen investors turn away from exporting manufacturers, and from an expectation that the company is likely soon to announce a large expansion.

Glaxo Wellcome gained 47 to £12.57 ahead of a 10-month trading statement due tomorrow, and helped by strength on Wall Street. Other drug stocks also rose, with SmithKline Beecham up 19 to 551p and Zeneca up 34 to £17.62.

Food producer United Biscuits was by far the best performer in the FTSE 250 after it and US group PepsiCo announced an asset swap deal under which the UK group will receive a net $410m from PepsiCo.

United Biscuits also said it plans to return £150m of the cash received to shareholders by June 1998. The shares gained 25¼ to 219½p.

BAe underperformed the market as the shares rose 2 to £15.50 as the Dubai air-show opened. At the show, the company confirmed a report that UK government funding for the Airbus had not been granted, and this had delayed the launch of the A340-500 and 600 aircraft.

Banks better

Weekend press reports suggesting Barclays is looking to merge with National Westminster were a talking point in the market and helped boost activity in the sector.

Shares in the former advanced 30 to £14.90 while the latter rose 15½ to 870½p. Lloyds TSB gained 24 to 723p as its Cheltenham & Gloucester subsidiary became the latest mortgage company to raise its rates.

Strong performances in far eastern markets helped boost banks exposed to the area. Standard Chartered gained 20 to 642p ahead of an analysts' visit to its Asian operations. HSBC was also wanted, and the shares put on 61 at £14.77.

A recovery was seen in merchant banking group Schroders. The non-voting shares put on 103 to £15.31, the best performer in the FTSE 100, while the ordinary shares rose 87 to £16.87p.

The strong market trend helped Norwich Union, recently the subject of bid speculation, to recover from an early retreat. The shares fell in early trading after Credit Lyonnais Laing downgraded its recommendation on the stock from "hold" to "sell". By the close, the shares had recovered to end up 2 at 366½p.

Analyst Craig Bourke believes the stock had been trading at a level which was not justified even by continuing bid speculation. He suggested a generous valuation was 330p a share.

FT 30 INDEX

	Nov 17	Nov 14	Nov 13	Nov 12	Nov 11	Yr ago	*High	*Low
FT 30	3162.8	3093.5	3072.6	3091.1	3137.1	2777.7	3430.3	2658.8
Ord. div. yield	3.59	3.68	3.70	3.67	3.57	4.12	4.22	3.29
P/E ratio net	20.46	19.97	19.88	20.01	20.58	16.76	22.33	15.80
P/E ratio nil	20.18	19.69	19.61	19.74	20.30	16.60	22.02	15.71

FT 30 since compilation: high 3430.3 16/10/97; low 49.4 26/06/40. Base Date: 1/7/35.

FT 30 hourly changes

Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.00	High	Low
3094.4	3165.2	3153.0	3154.0	3159.7	3155.1	3155.2	3143.1	3156.0	3186.7	3094.2

	Nov 17	Nov 14	Nov 13	Nov 12	Nov 11	Yr ago
SEAQ bargains	54,370	49,785	43,929	49,848	40,596	40,044
Equity turnover (£m)†	–	NA	2310.2	2148.7	2125.3	985.8
Equity bargains†	–	NA	34,808	38,740	35,127	26,802
Shares traded (m)†	–	NA	661.3	696.0	626.6	384.9

†Excluding intra-market and overseas turnover but including Crest turnover.

 *For 1997.

London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	1,100	Total Highs	50	Total contracts	34,355
Total Falls	491	Total Lows	83	Calls	15,096
Same	1,460			Puts	19,259

Nov 17 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

■ FTSE 100 INDEX FUTURES (LIFFE) £25 per full index point (APT)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	4920.0	4900.0	+137.0	4960.0	4843.0	11478	64678
Mar	4907.0	4944.0	+138.0	4928.0	4907.0	162	7499

■ FTSE 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	-	4626.0	+14.0	-	-	0	9244

■ FTSE 100 INDEX OPTION (LIFFE) (*4869) £10 per full index point

	4700 C	4700 P	4750 C	4750 P	4800 C	4800 P	4850 C	4850 P	4900 C	4900 P	4950 C	4950 P	5000 C	5000 P	5050 C	5050 P
Nov	[illegible]															
Dec	[illegible]															
Jan	[illegible]															
Feb	[illegible]															
Jun†	[illegible]															

Calls 4,251 Puts 5,834

■ EURO STYLE FTSE 100 INDEX OPTION (LIFFE) £10 per full index point

	4725	4775	4825	4875	4925	4975	5025	5075
Nov	[illegible]							
Dec	[illegible]							
Jan	[illegible]							
Mar	[illegible]							
Jun†	[illegible]							

Calls 8,246 Puts 10,856. * Underlying index value. Premiums shown are based on settlement prices. † Long dated expiry months.

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt. cap (£m.)	1997 High	1997 Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
§	F.P.	- -	102¼	100¼	Asset Mn Zero Dv	[illegible]					
-	F.P.	32.1	207½	200½	BCH Group	[illegible]					
-	F.P.	1,309	30½	29½	BG 'B'	[illegible]					
-	F.P.	0.74	17½	16½	†Buckland Inv	[illegible]					
-	F.P.	0.08	12	8	†Do Warrants	[illegible]					
§150	F.P.	8.47	153½	153½	†Cresco Intl	[illegible]					
*	F.P.	20.0	100	100	Foresight Tech	[illegible]					
*	F.P.	0.22	5½	5½	Do Warrants	[illegible]					
-	F.P.	45.7	148½	147½	Gyrus Group	[illegible]					
§128	F.P.	123.3	182½	160½	Holmes Place	[illegible]					
155	F.P.	17.2	176½	162½	Latchways	[illegible]					
*	F.P.	86.5	89½	70½	†Metalrussia	[illegible]					
§45	F.P.	20.7	52½	50½	†Minorplanet Sys	[illegible]					
§115	F.P.	17.7	182½	140	†NSB Retail Sys	[illegible]					
250	F.P.	477.0	252½	225	Newsquest	[illegible]					
-	F.P.	20.2	128	115½	Nthn Recruitment	[illegible]					
70	F.P.	26.1	63½	53	Nott'ham Forest	[illegible]					
§245	F.P.	140.0	287½	245	SHL Group	[illegible]					
-	F.P.	[illegible]	[illegible]	[illegible]	Workplace Tech	[illegible]					

† Alternative Investment Market. § Placing price. * Introduction. For a full explanation of all other symbols please refer to The London Share Service notes.

FTSE GOLD MINES INDEX

	Nov 17	% chg on day	Nov 14	Year ago	Gross div yield %	P/E ratio	52 week High	52 week Low
Gold Mines Index (32)	1096.25	-2.8	1116.87	1676.83	2.67	-	1976.63	1085.35
■ Regional indices								
Africa (15)	1082.33	-4.4	1132.71	2502.51	6.81	18.05	2502.51	1082.33
Australasia (5)	1106.63	-2.3	1134.25	2178.36	3.47	13.63	2217.80	1105.03
North America (12)	1097.54	-2.5	1125.36	1807.75	1.22	40.80	1820.29	1097.54

 Figures in brackets show number of companies. Basis US Dollars. Base Values: 1000.00 31/12/92. † Partial. Latest prices were unavailable for this edition.

FTSE Actuaries Share Indices — The UK Series

Produced in conjunction with the Faculty and Institute of Actuaries

	Nov 17	Day's chge%	Nov 14	Nov 13	Year ago	Gross yield%	Net yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
FTSE 100	4867.0	+2.6	[illegible]								
FTSE 250	4625.8	+0.9	[illegible]								
FTSE 250 ex IT	[illegible]										
FTSE 350	2349.4	+2.3	[illegible]								
FTSE 350 ex IT	[illegible]										
FTSE 350 Higher Yield	[illegible]										
FTSE 350 Lower Yield	[illegible]										
FTSE SmallCap	[illegible]										
FTSE SmallCap ex IT	[illegible]										
FTSE All-Share	2299.43	+2.1	[illegible]								
FTSE All-Share ex IT	[illegible]										

■ FTSE Actuaries Industry Sectors

	Nov 17	Day's chge%	Nov 14	Nov 13	Year ago	Gross yield%	Net yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
10 MINERAL EXTRACTION	[illegible]										
12 Extractive Industries	[illegible]										
15 Oil, Integrated	[illegible]										
16 Oil Exploration & Prod	[illegible]										
20 GEN INDUSTRIALS	[illegible]										
21 Building & Construction	[illegible]										
22 Building Matls & Merchs	[illegible]										
23 Chemicals	[illegible]										
24 Diversified Industrials	[illegible]										
25 Electronic & Elect Equip	[illegible]										
26 Engineering	[illegible]										
27 Engineering, Vehicles	[illegible]										
28 Paper, Pckg & Printing	[illegible]										
29 Textiles & Apparel	[illegible]										
30 CONSUMER GOODS	[illegible]										
32 Alcoholic Beverages	[illegible]										
33 Food Producers	[illegible]										
34 Household Goods	[illegible]										
36 Health Care	[illegible]										
37 Pharmaceuticals	[illegible]										
38 Tobacco	[illegible]										
40 SERVICES	[illegible]										
41 Distributors	[illegible]										
42 Leisure & Hotels	[illegible]										
43 Media	[illegible]										
44 Retailers, Food	[illegible]										
45 Retailers, General	[illegible]										
47 Breweries, Pubs & Rest.	[illegible]										
48 Support Services	[illegible]										
49 Transport	[illegible]										
60 UTILITIES	[illegible]										
62 Electricity	[illegible]										
64 Gas Distribution	[illegible]										
66 Telecommunications	[illegible]										
68 Water	[illegible]										
69 NON-FINANCIALS	[illegible]										
70 FINANCIALS	[illegible]										
71 Banks, Retail	[illegible]										
73 Insurance	[illegible]										
74 Life Assurance	[illegible]										
75 Other Financial	[illegible]										
79 Property	[illegible]										
80 INVESTMENT TRUSTS	[illegible]										
89 FTSE All-Share	[illegible]										
105 FTSE All-Share ex IT	[illegible]										
FTSE Fledgling	[illegible]										
FTSE Fledgling ex IT	[illegible]										
FTSE AIM	[illegible]										

■ Hourly movements

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	High/day	Low/day
FTSE 100	[illegible]										
FTSE 250	[illegible]										
FTSE 350	[illegible]										
FTSE SmallCap	[illegible]										
FTSE All-Share	[illegible]										

Further information is available on http://www.ftse.com.

FTSE INTERNATIONAL

TRADING VOLUME

■ Major Stocks Yesterday

	Vol. 000s	Closing price	Day's change
[illegible]			

Based on trading volume for a selection of major securities yesterday until 4.30pm. † Indicates a FTSE 100 index constituent or reserve. All trades are rounded. Source: Reuters, part of FT information.

شكراً من الأهل

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Nov 17 / Sch)

BELGIUM/LUXEMBOURG (Nov 17 / Frs.)

CZECH REP (Nov 17 / Koruna)

DENMARK (Nov 17 / Kr)

FINLAND (Nov 17 / Mkk)

FRANCE (Nov 17 / Frs.)

GERMANY (Nov 17 / Dm.)

GREECE (Nov 17 / Drachma)

ITALY (Nov 17 / Lire)

NETHERLANDS (Nov 17 / Fls.)

NORWAY (Nov 17 / Kroner)

POLAND (Nov 17 / Zloty)

PORTUGAL (Nov 17 / Escudo)

SPAIN (Nov 17 / Pts.)

SWEDEN (Nov 17 / Kronor)

SWITZERLAND (Nov 17 / Frs.)

TURKEY (Nov 17 / Tk Lira)

PACIFIC

JAPAN (Nov 17 / Yen)

AUSTRALIA (Nov 17 / Aus$)

HONG KONG (Nov 17 / H.K.$)

INDONESIA (Nov 17 / Rupiah)

MALAYSIA (Nov 17 / MYR)

NEW ZEALAND (Nov 17 / NZ $)

SINGAPORE (Nov 17 / S$)

SOUTH KOREA (Nov 17 / Won)

TAIWAN (Nov 17 / TW $)

THAILAND (Nov 17 / Baht)

MONTREAL (Nov 17 / Can $)
4 pm close

AFRICA

SOUTH AFRICA (Nov 17 / Rand)

NORTH AMERICA

CANADA

TORONTO (Nov 17 / Can $)
4 pm close

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The indices are compiled by FTSE International and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries. NatWest Securities Ltd. was a co-founder of the indices.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	FRIDAY NOVEMBER 14 1997 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	THURSDAY NOVEMBER 13 1997 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (75)	200.74	-1.6	175.56	161.24	180.63	192.31	-1.2	3.98	204.09	178.15	162.44	182.85	194.65	243.87	190.41	213.53
Austria (21)	188.20	0.7	164.60	151.18	169.35	169.29	1.1	1.96	186.93	163.18	148.79	167.48	167.41	213.59	175.14	183.80
Belgium (27)	245.39	0.1	214.62	197.11	220.81	216.04	0.5	3.19	245.07	213.93	195.07	219.56	214.89	261.11	221.31	226.36
Brazil (30)	202.95	7.2	177.49	163.02	182.62	413.95	7.2	1.78	189.34	165.29	150.71	169.64	386.06	322.44	178.94	179.04
Canada (122)	212.89	0.3	186.27	171.08	191.65	217.69	0.8	1.79	212.25	185.28	168.94	190.16	218.37	233.66	178.27	190.78
Denmark (32)	408.36	0.0	357.14	328.02	367.45	365.87	0.5	1.40	408.26	356.39	324.95	365.77	364.18	429.78	333.94	337.78
Finland (26)	298.20	-0.1	260.79	239.53	268.32	325.80	0.2	1.91	298.37	260.46	237.49	267.31	325.29	349.43	232.86	234.89
France (84)	222.08	-0.6	194.23	178.39	199.83	201.92	-0.2	2.64	223.42	195.03	177.83	200.17	202.28	246.23	203.73	209.16
Germany (56)	211.61	0.2	185.07	169.98	190.41	190.41	0.6	1.82	211.20	184.37	168.11	189.22	189.22	243.87	183.03	187.21
Hong Kong, China (66)	342.02	3.1	299.13	274.73	307.75	339.46	3.1	4.70	331.80	289.64	264.10	297.26	329.37	580.03	314.78	486.15
Indonesia (27)	112.91	0.5	98.75	90.70	101.60	238.29	1.3	2.83	112.41	98.13	89.47	100.71	235.15	254.90	101.96	217.34
Ireland (16)	373.78	-0.1	326.89	300.24	336.33	349.39	0.2	2.82	374.24	326.69	297.88	335.29	348.72	394.89	310.26	317.39
Italy (53)	106.80	0.0	93.40	85.79	96.10	135.11	0.5	1.76	106.77	93.20	84.98	95.65	134.48	115.27	79.11	81.90
Japan (484)	95.91	-2.7	83.88	77.04	86.30	77.04	-1.8	1.04	98.60	86.07	78.48	88.34	78.48	143.38	95.91	142.59
Malaysia (107)	236.59	0.1	206.86	189.99	212.88	301.88	0.5	2.40	236.33	206.31	188.11	211.74	300.48	690.85	222.88	662.38
Mexico (27)	1489.80	2.0	1303.03	1196.77	1340.64	13801.99	1.7	1.79	1460.17	1274.64	1162.23	1308.19	13370.45	1601.96	1147.96	1220.00
Netherlands (19)	395.79	-0.2	346.15	317.92	356.14	352.76	0.3	2.38	396.74	346.33	315.79	355.45	351.67	440.67	313.78	319.19
New Zealand (14)	85.05	1.3	74.38	68.32	76.53	72.28	1.5	4.24	83.98	73.31	66.84	75.24	71.22	98.47	75.37	92.56
Norway (38)	336.28	-1.2	294.10	270.12	302.59	322.59	-0.8	1.89	340.55	297.28	271.06	305.11	325.31	374.64	274.56	274.56
Philippines (22)	87.11	3.2	76.18	69.97	78.38	147.51	3.4	1.19	84.39	73.67	67.17	75.60	142.69	214.07	78.40	194.89
Singapore (42)	243.34	0.4	212.82	195.46	218.96	177.57	0.8	1.79	242.28	211.49	192.84	217.06	176.12	448.01	215.21	411.16
South Africa (43)	270.53	-3.5	236.59	217.30	243.42	286.71	-3.2	3.00	280.37	244.75	223.16	251.19	296.14	370.12	259.47	326.09
Spain (33)	246.03	0.6	215.17	197.62	221.38	272.12	1.0	2.49	244.47	213.41	194.59	219.02	269.47	277.33	195.51	195.72
Sweden (48)	460.14	-1.6	402.43	369.61	414.04	513.07	-1.3	2.02	467.43	408.04	372.05	418.79	519.82	539.94	402.43	402.95
Switzerland (33)	309.38	0.1	270.57	248.51	278.38	269.00	0.3	1.24	308.95	269.69	245.91	276.79	268.28	329.59	231.69	246.80
Thailand (39)	30.65	-1.1	26.80	24.62	27.58	46.27	-0.7	6.07	30.98	27.04	24.66	27.76	46.59	129.94	29.09	127.74
United Kingdom (215)	316.64	0.5	276.93	254.35	284.92	276.93	0.5	3.54	315.23	275.18	250.91	282.42	275.18	337.99	261.60	263.09
USA (644)	377.88	1.3	330.48	303.53	340.02	377.88	1.3	1.63	373.16	325.74	297.01	334.32	373.16	389.82	293.43	289.39
Americas (823)	343.27	1.3	300.22	275.74	308.88	289.63	1.3	1.64	338.93	295.87	269.77	303.66	285.94	365.75	268.24	274.01
Europe (706)	272.19	0.1	238.05	218.64	244.92	248.71	0.4	2.56	272.02	237.46	216.52	243.71	247.80	286.25	227.46	229.66
Nordic (147)	407.65	-1.1	356.52	327.44	366.81	397.32	-0.8	1.89	411.97	359.63	327.91	369.09	400.31	464.93	345.30	345.85
Pacific Basin (876)	107.50	-1.9	94.01	86.35	96.73	86.76	-1.2	1.71	109.60	95.67	87.24	98.19	87.79	160.96	107.50	159.27
Euro-Pacific (1582)	176.20	-0.7	154.10	141.53	158.55	147.53	-0.2	2.26	177.36	154.83	141.17	158.90	147.81	209.12	173.55	188.48
North America (766)	367.55	1.2	321.45	295.24	330.73	367.19	1.2	1.64	363.11	316.98	289.02	325.32	362.71	389.57	286.81	282.94
Europe Ex. UK (491)	242.57	-0.2	212.14	194.84	218.27	227.47	0.2	1.99	242.96	212.09	193.38	217.67	226.98	267.07	202.63	206.55
Pacific Ex. Japan (392)	209.20	0.8	182.96	168.04	188.24	199.33	1.0	3.89	207.60	181.22	165.24	185.99	197.31	320.65	194.30	305.87
World Ex. US (1804)	180.00	-0.5	157.42	144.58	161.96	154.15	-0.1	2.23	180.98	157.98	144.05	162.14	154.31	212.89	176.94	190.52
World Ex. UK (2233)	236.80	0.4	207.10	190.21	213.08	212.65	0.6	1.73	235.95	205.97	187.80	211.39	211.71	262.69	211.16	221.00
World Ex. Japan (1964)	317.62	0.6	277.79	255.13	285.80	307.66	0.9	2.05	315.04	275.01	250.76	282.25	304.80	344.35	264.51	268.09
The World Index (2448)	243.59	0.4	213.03	195.66	219.18	218.80	0.6	1.93	242.68	211.85	193.16	217.42	217.52	268.47	216.61	224.63

Emerging markets: IFC Investable indices

4 pm close November 17

NEW YORK STOCK EXCHANGE PRICES

- X - Y - Z -

1997 High	Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close Price	Chng Prev. Close
[illegible]	51½	Xerox	1.28	1.7	19	11307	78½	74½	78¾	+3¾
[illegible]	40½	Xtra Corp	0.80	1.5	18	153	52½	51	52	+1½
25	20⅝	Yankee Egy	1.34	5.9	14	65	23	22⅞	22⅞	[illegible]
55	37⅞	York Intl	0.48	1.0	18	2412	47½	45¾	46	[illegible]
8⅝	4	Zapata	0.28	3.8	61	107	7¼	7⅛	7⅛	[illegible]
13⅜	7½	ZenithEl				1349	8⅛	7⅞	8	[illegible]
28¾	24⅝	Zenith Nat x	1.00	3.6	16	20	27¾	27½	27¾	[illegible]
8⅞	7⅞	Zurich Inc	0.78	9.2		184	8⅝	8⅛	8⅛	[illegible]
[illegible]	17¾	Zero x	0.12	0.4	18	114	27⅞	27	27	[illegible]
14	10½	ZweigFdUS	1.32	10.3		216	12⅞	12⅞	12⅞	[illegible]
9½	8	Zweig Tot x	0.84	9.0		880	9⅛	9⅛	9⅛	[illegible]

Price data supplied by Extel, part of FT Information.

Yearly highs and lows for NYSE reflect the period from Jan 1 1997. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Sales figures are unofficial.

d-new yearly low. P/E price-earnings ratio. s/s-splits. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full. ‡ Dealings suspended.

NASDAQ

صكذا من الاصل

GLOBAL EQUITY MARKETS

US INDICES

Dow Jones	Nov 14	Nov 13	Nov 12	1997 High	1997 Low	Since compilation High	Since compilation Low
Industrials	7572.48	7487.76	7401.32	8259.31 (6/8)	6391.69 (11/4)	8259.31 (6/8/97)	41.22 (8/7/32)
Home Bonds	104.44	104.46	104.43	104.70 (31/7)	101.09 (14/4)	104.70 (31/7/97)	54.99 (1/10/81)
Transport	3106.59	3068.45	3086.68	3358.27 (15/10)	2222.07 (2/1)	3358.27 (15/10/97)	13.23 (8/7/32)
Utilities	245.60	243.74	243.98	248.59 (27/10)	209.47 (25/4)	256.46 (21/8/93)	16.53 (8/7/32)

DJ Ind. Day's high 7634.81 (7548.45) Low 7431.03 (7334.77) (Theoretical§)
Day's high 7590.16 (7499.79) Low 7467.38 (7349.96) (Actual§)

Standard and Poors	Nov 14	Nov 13	Nov 12	1997 High	1997 Low	Since compilation High	Since compilation Low
Composite‡	928.35	916.66	905.96	983.12 (7/10)	737.01 (2/1)	983.12 (7/10/97)	4.40 (1/6/32)
Industrials¶	1087.15	1072.17	1059.10	1146.82 (7/10)	865.42 (11/4)	1146.82 (7/10/97)	3.52 (30/6/32)
Financial¶	108.35	107.37	106.56	118.94 (7/10)	80.75 (2/1)	118.94 (7/10/97)	7.13 (4/9/74)
Others							
NYSE Comp.	486.06	480.59	476.93	514.21 (7/10)	389.47 (11/4)	514.21 (7/10/97)	4.64 (25/4/42)
Amex Comp	672.62	666.86	660.04	721.90 (7/10)	541.20 (29/4)	721.90 (7/10/97)	524.20 (16/7/98)
NASDAQ Comp	1583.51	1557.74	1541.72	1745.85 (9/10)	1201.00 (2/4)	1745.85 (9/10/97)	54.87 (3/10/74)
Russell 2000	428.41	423.39	423.44	465.21 (13/10)	335.85 (25/4)	465.21 (13/10/97)	123.36 (7/12/93)

RATIOS

	Nov 14	Nov 7	Oct 31	Year ago
Dow Jones Ind. Div. Yield	1.78	1.78	1.80	2.06
	Nov 12	Nov 5	Oct 29	Year ago
S & P Ind. Div. yield	1.56	1.50	1.55	1.87
S & P Ind. P/E ratio	24.38	25.28	24.60	22.84

US DATA

MARKET ACTIVITY

● Volume (million)	Nov 14	Nov 13	Nov 12
NYSE	635.760	648.461	588.230
Amex	35.057	38.979	25.586
NASDAQ	714.255	784.842	719.854

NYSE	Nov 14	Nov 13	Nov 12
Issues Traded	3,435	3,427	3,409
Rises	1,926	1,417	651
Falls	977	1,489	2,357
Unchanged	532	521	401
New Highs	69	45	52
New Lows	62	87	118

NYSE TRADING ACTIVITY Volume : 635,760,000

ACTIVE STOCKS

Friday	Stocks traded	Close price	Day's change
Amer Store	11,348,800	29¾	-6½
Tel Brasil	7,180,300	97¾	+3⅞
Compaq	6,626,000	62⅛	+⅞
Green Tree	6,281,000	32¾	-7¾
Int Tech	6,195,000	19⅞	+1⅞
Chase Man	5,179,200	103⅞	-3⅞
Gen Elec	5,078,800	69⅛	+1⅛
Texas Inst	4,791,600	95	-1½
Trav Prop	4,555,200	36⅝	+⅞
IBM	4,154,100	101⅛	+2¾

BIGGEST MOVERS

Friday	Close price	Day's change	Day's chge %
Ups			
Wstrn Dgtl	23⅝	+2¾	+13.3
Capmac Hldg	33⅛	+3⅞	+11.5
Pogo Prod	34⅛	+3⅛	+9.9
Ocean Rsl	48¼	+3¾	+8.2
Downs			
Amer Stores	29¾	-6½	-24.2
Green Tree	32¾	-7¾	-18.9
McClatchy	28	-4⅝	-14.2
Util Co Rsd	20	-2⅜	-10.6

NASDAQ TRADING ACTIVITY Volume :714,255,000

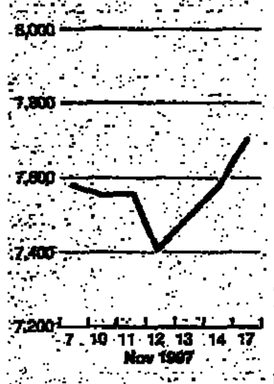
ACTIVE STOCKS

Friday	Stocks traded	Close price	Day's change
Three Com	18,134,000	30⅛	-⅛
Appld Mat	16,022,200	32⅞	+1⅞
MCI Comms	15,849,300	41⅛	+½
Intel	12,785,600	78¾	+⅞
Sun Micro	11,477,000	34¾	+2¾
Dell Cmptr	10,738,100	79¾	+2⅛
Worldcom	9,779,000	29⅝	+⅛
Cisco Sys	9,281,800	61¾	+1⅞
Tele Comm	8,321,800	24	+⅞
Fore Sys	6,176,700	17⅝	+1¾

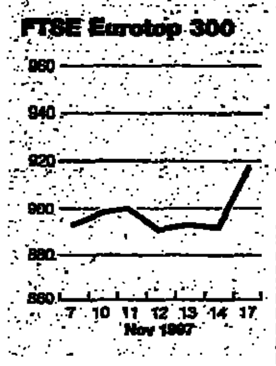
BIGGEST MOVERS

Friday	Close price	Day's change	Day's chge %
Ups			
Coulter Phrm	18⅝	+3½	+23.8
Harbinger	29¼	+4¼	+16.9
Spectl Mod	53½	+6¾	+14.4
Teledec	41	+4⅛	+11.8
Downs			
Gold Flds	13	-5¼	-28.3
Detection Sys	13½	-5¼	-28.0
Marmer Indx	15	-2¼	-13.0
Decklnocoe	30	-3¼	-9.8

Dow Jones



FTSE Eurotop 300



JAPAN

GERMANY

FRANCE

UK

INDEX FUTURES

S&P 500	Open	Latest	Change	High	Low	Est. vol.	Open int.
Dec	932.00	932.40	-0.20	945.20	931.80	116,077	375,836
Mar	-	942.70	+0.20	-	-	1,456	20,347

Nikkei 225	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	15260.0	16040.0	+1000.0	16040.0	15230.0	25,940	175,697
Mar	15250.0	16050.0	+1000.0	16050.0	15250.0	163	15,100

Open interest figures for previous day.

CAC-40 (200 x Index)	Open	Sett Price
Nov	2794.0	2785.0
Dec	2801.5	2791.5

DAX	Open	Sett Price
Dec	3800.0	3837.5
Mar	3835.0	3872.5

WORLD MARKETS AT A GLANCE

NASDAQ NATIONAL MARKET

4 pm close November 17

AMEX PRICES

4 pm close November 17

EASDAQ

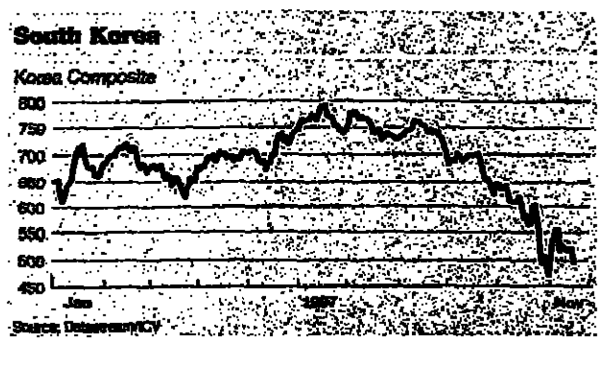
EASDAQ is a fully regulated independent pan European Stock Market focused on high growth companies with international aspirations. The shares of companies on the EASDAQ Stock Market can be bought and sold through EASDAQ Members.

Company	Mid price	Change on day	Volume	High	Low	Company	Mid price	Change on day	Volume	High	Low
ActivCard	US$3	-0.125	0	8.25	2.375	Gruppo Formula	ITL20000		3000	22600	19900
Artwork Systems	US$9.25		7500	11.125	7.875	Innogenetics	US$18.75	+0.125	454109	17.875	9.875
Chemunex	FFr12.5		0	18	10	Lernout & Hauspie	US$53	+3.75	14960	58.625	25
City Bird Holding	US$7.9375	+0.063	12920	8.25	6.8125	Meleas	US$8.125	+0.125	72800	9.125	7.1875
Deborah Holdings	GBP3.7	-0.050	18750	7.15	3.75	Memor Int'l	US$10.5	+0.125	0	12.875	8.125
Dr Solomon's *	US$35.875	+1.625	1000	34.625	18.875	NTL	US$26.75		0	28.375	20.5
EDAP TMS *	US$7.25		0	8.125	6.5	PixTech	US$3		0	6.125	2.625
ESAT Telecom *	US$14.8125	+0.938	0	15.25	13.25	Schoeller-Bleckmann	Sch1325	-23	5000	1692	900
Espace Prod. Int.	FFr97.38		500	117	97.75	Topcall Int'l	Sch4590	+40	1200	5000	3065
Esprit Telecom *	US$5.75		500	12.25	4.875	Turbodyne Technol.	US$4.35	-0.180	0	6.25	3.73

Prices for 17/11/97. Please note that mid prices are now used to calculate highs and lows. Information about EASDAQ can be found on the Web site at: HTTP://WWW.EASDAQ.be EASDAQ offices are located in Brussels (Tel. 32-2 / 227 65 20) and in London (Tel. 44-171 / 489 9900).

Tough Hokkaido decision has tonic effect

WORLD OVERVIEW



A sudden and substantial shift in trend in the Tokyo stock market set the tone for the rest of the day, *writes Philip Coggan*. The authorities' decision to let Hokkaido Takushoku Bank go bust (while bailing out its depositors) prompted hope of a solution to the Japanese financial crisis and brought relief to the Hong Kong, European and US markets.

Markets have been worrying about the possibility that Japan could be caught in a 1930s-style deflationary crisis, in which contracting credit prompts recession and plunging share prices.

Concern about the banks, which have large amounts of their capital tied up in equity holdings, have been behind the recent fall in the Nikkei 225 average. "At the core of Japan's problems is a banking system that does not function," said Joe Rooney, global strategist at Lehman Brothers. "Despite official interest rates of 0.5 per cent, bank lending is contracting in year-on-year terms," he said. But the authorities' stance towards Hokkaido seemed to convince investors that Japan has recognised the scale of the problem and decided to take action. The Nikkei jumped 8 per cent.

"The public bailout of Hokkaido Takushoku Bank marks a turning point in the Japanese stock market, with the authorities now finally admitting the scale of the banking problem with which they were faced, and prepared to use public money to address it," said Chris Carter, managing director, global equity strategy at UBS.

UBS thinks the Nikkei should achieve the financial solvency floor level of 17,200 and 19,000 by March if other stimulus measures are applied.

However, potential gains will be limited since "the life insurance companies remain in very bad shape and will thus remain very risk-averse in their behaviour".

While many of the world's stock markets were gaining on the day, it was a different story in Korea where the government finally gave up on efforts to defend the exchange rates at the Won1,000/$ level.

The danger for the Seoul stock market is that the position of the heavily indebted conglomerates, or *chaebol*, is worsened by the effective devaluation.

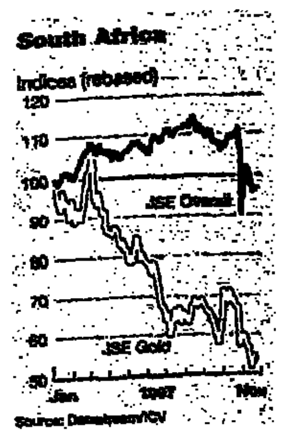
The plight of the Thai corporate sector was highlighted by a series of results which showed the impact of high debt levels and a slowing domestic economy. The SET index in Bangkok fell to an 8½-year low.

Korea is a much larger economy than Thailand, and the impact of its problems on the world, and on Japan in particular, will be greater. So it might be a mistake to think that yesterday's rally means that world markets are out of the woods.

London market, Page 38

EMERGING MARKET FOCUS

S Africa's gold hopes thwarted



Until last week, the prospect of the gold price sliding below $300 per ounce had been more the stuff of nightmares than of predictions. So when bullion crossed that symbolic threshold in New York on Friday, the shock was acute in Johannesburg.

After a year in which the all gold index has slumped by 48 per cent, it shed 4.3 per cent in a day's trade. The gloom was compounded by news that the German Bundesbank plans to lend gold into the forward market.

Gold accounts for less than 3 per cent of the market capitalisation of the Johannesburg Stock Exchange, but it remains South Africa's single largest source of foreign exchange. The slump has hit hopes that volatility in world stock markets could provide a fillip for gold.

Analysts fear it may drop to $280 before stabilising. Weak commodity prices and persistent productivity problems have knocked 30-60 per cent off the share prices of the best-known mining counters.

Anglo American's coal and gold divisions, JCI, South Africa's first black-owned mining house, De Beers, the diamonds and industrial group, and Gold Fields, have borne the brunt of the bearish sentiment. Last month's announcement that Gold Fields plans to merge with Gencor to form the world's biggest gold producer has brought little reprieve.

Downward pressure on bullion has meant pressure on the fragile rand – and revived memories of 1996 when the South African currency lost 28 per cent of its value against the greenback. As the rand touched a record low of R4.87 during intra-day trade on Friday, hope dimmed that weakness in global markets could prompt fund managers to take a closer look at Southern Africa.

Net purchases by foreigners were worth R23.3bn in the past year, compared with R5.3bn during the same period in 1995-96. The non-mining economy has been buoyed by higher exports and rising competition among local companies, but trade has been thin this month.

The star performers have been in the financial sector, which gained 24 per cent in the year to October, and information technology. Niche banks, led by Investec and Rand Merchant Bank, have delivered consistent annual earnings growth of above 20 per cent. These are popular as "defensive stocks".

The outlook for industrials brightened after a 1 per cent cut in the bank rate to 16 per cent in October. Jos Gerson, chief economist at Smith Borkum Hare, expects blue chips to gain popularity as the restructuring of industrial conglomerates picks up speed.

Investors may also take comfort from the JSE's improved liquidity. As a percentage of market capitalisation, annualised liquidity was 21.2 per cent last month, compared with 13 per cent a year ago. In slow trade yesterday, the golds index rose 5.8 to 783.2, industrials jumped 78.2 to 7,976.0 and the overall index firmed 54.5 to 6,428.2.

Mark Ashurst

Dow climbs above 7,700 on Tokyo rise

AMERICAS

Stronger overseas markets ignited a morning rise on Wall Street, with the Dow Jones Industrial Average edging past the 7,700 points mark by early afternoon, *writes John Labate in New York*.

"There's a huge sigh of relief about the Japanese markets gaining 1,200 points," said Michael Metz, chief investment strategist at Oppenheimer in New York. "Momentarily, the fear of an implosion in Japan has faded in the background," he added.

By early afternoon the Dow was 135.07 higher, a gain of 1.8 per cent, to 7,707.55. The broader Standard & Poor's 500 Index rose 18.23 at 946.58. The Nasdaq composite index, which is weighted in technology shares, gained 31.80 or more than 2 per cent at 1,615.31.

Stability in Japan sent investors rushing back to banking and technology stocks. Both sectors began to recover late last week, after speculation on the impact of the Asian market crisis sent shares in both sectors swinging wildly. Shares in Citicorp were up $4⅜ at $120⅜, while J.P. Morgan, a Dow stock, rose by $3⅜ to $113.

Other banking shares rallied, taking the Philadelphia stock exchange's bank index more than 3 per cent higher at 710.17. BankBoston's shares rose $3⅝ at $82¼ as PaineWebber increased the firm's rating. Chase Manhattan gained $4½ to $108.

Automotive producers were actively traded as reports of possible job cuts at General Motors, though not confirmed by the company, sent its shares $1⅝ higher at $62⅜. Ford Motor's shares rose $¼ to $43⅝ in spite of lower estimates of the company's 1998 performance by analysts at Merrill Lynch.

A morning "buy" rating by Lehman Brothers sent WorldCom's shares up $1¼ at $31¼. MCI, the long distance carrier that agreed to be merged with WorldCom, was $⅝ higher at $42⅝.

After issuing a warning about fourth-quarter earnings, Union Pacific shares fell $1⅞ to $58⅝. Retailer Toys R Us lost $⅝ at $34¼ after reporting higher third quarter earnings.

Within the technology sector, semiconductor chip makers rose strongly. Intel gained $1⅜ to $80⅝ while Texas Instruments surged more than 7 per cent higher at $100⅛.

Networking computer firm 3Com also recovered from recent Asian-related selling, rising more than 13 per cent or $4 to $34⅛.

TORONTO held on to a 1 per cent rise at midsession as the Japan-led rally took hold of global markets. The TSE 300 composite index was 71.72 higher at 6,797.90.

All of the market's 14 subindices gained ground during morning trade led by the banks which put on 1.8 per cent

Shares in Dominion Textile gained C$1.35 to C$14.35 after the Montreal-based textile manufacturer said it would recommend shareholders accept the sweetened takeover bid by Polymer Group of the US.

Stronger dollar lifts bourses

EUROPE

A stronger dollar and sharp recoveries in stocks hardest hit by the Asian turmoil took many of the European bourses strongly ahead.

FRANKFURT extended morning gains in late electronic trade to close 3.8 per cent higher. By the close, the Ibis-indicated Dax index was 140.06 higher at 3,816.71.

Carmakers and chemicals were major beneficiaries of dollar strength. VW was DM38.90 higher at DM920.90 on reports that the group had finally resolved its disagreement over subsidies with the European Commission.

Daimler picked up DM5.85 at DM117.50 after the chairman was quoted as saying that problems with the new A-class small car should not affect the overall development of Daimler's results in the next few years. BMW climbed DM36 to DM1,228.

Among the chemicals companies, Schering rose DM6.70 to DM163.20 and Hoechst DM3.05 to DM70.55.

Retailers Karstadt and Metro were higher after Karstadt's chief executive was quoted as saying that net profits could reach DM150m this year. Karstadt jumped DM22 to DM1,026 and Metro was DM3.97 higher at DM78.99.

PARIS pulled 2.9 per cent ahead, with the CAC 40 index finishing 76.95 higher at 2,772.99.

Shares with Asian exposure were among the strongest gainers. LVMH rose FFr44 to FFr973, BNP gained FFr12.30 at FFr260.80, Accor put on FFr41 at FFr1,066 and SGS-Thomson climbed FFr24.50 to FFr414.50.

Among the dollar stocks, L'Oreal added FFr72 at FFr2,172 and Lafarge put on FFr41.20 at FFr380.90.

Elf climbed FFr34 to FFr727 and Total rose FFr33 to FFr650 as investors focused on the strong dollar rather than easier oil prices.

AMSTERDAM was boosted by a flurry of interest in financials and technology stocks, which helped the AEX index to close 24.98 higher at 877.03.

ING topped the volume list after the success of its bid for BBL, Belgium's third largest bank. The shares ended Fl 1.60 higher at Fl 82.30. Rival banking group Fortis Amev also rose Fl 2.60 to Fl 80.60 on rumours of a tie-up with Belgium's Generale Bank.

ZURICH held on to an advance of 2.4 per cent by the close, with the SMI index up 128.0 at 5,565.0. However, activity remained muted with many investors unwilling to commit themselves to new strategies.

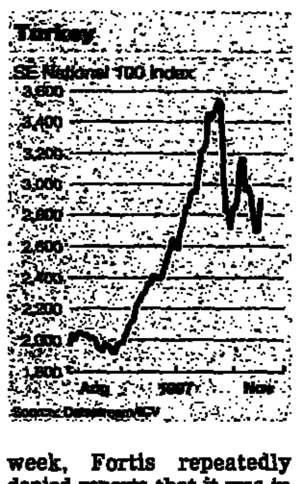
Industrials, hard hit in the recent correction, were among the best performers. ABB rose SFr38 to SFr1,737, Clariant jumped SFr46 to SFr1,084 and Holderbank, the cement group with heavy exposure to Latin America, recouped SFr42 to SFr1,152.

Defensive stocks also performed strongly. Novartis was SFr74 higher at SFr2,184 and Nestlé climbed SFr44 to SFr2,010. The food group is expected to report today that group sales rose by about 18 per cent in the first 10 months of the year as the weak franc and rising volume growth boosted turnover.

BRUSSELS again turned its attention to the banking sector on speculation that more mergers could follow the BBL takeover. The Bel-20 index rose 51.55 or 2.2 per cent to 2,367.97.

BBL rose BFr210 to BFr9,450 as its board approved the ING bid.

Kredietbank was among the best performing blue chip gainers, rising BFr650 to BFr14,800 as it rekindled merger speculation with the weekend news that it was talking to Belgian Cera and foreign banks. Fortis rose BFr220 to BFr7,070 and Generale Bank was BFr400 higher at BFr15,075. Last week, Fortis repeatedly denied reports that it was in talks with Generale Bank about ASLK-CGER bank, but would not rule them out indefinitely.



MADRID ended 3 per cent higher, boosted by rebounds in Latin America. Investors were said to be particularly relieved by early gains in Brazil, where a number of leading Spanish companies have major investments. The general index finished 16.82 better at 571.0.

MILAN consolidated early gains to close higher, with the Mibtel index ending up 284 at 15,136. Stocks with big Latin American exposure rebounded as investors covered short positions. Benetton put on L625 to L25,559, helped also by a buy recommendation from JP Morgan setting a 12-month price target of L30,500.

Banks were firmer, with BCI up L167 to L4,848 on restructuring hopes, and Banca di Roma, which started its privatisation roadshow yesterday, up L45 at L1,585.

ISTANBUL soared 7.4 per cent in a recovery driven by gains in foreign markets and easing worries about the stand-off between Iraq and the United Nations. The IMKB National-100 index ended 198 higher at 2,890, with the mood also helped by indications that talks with the IMF were progressing positively.

ATHENS took a blow from a round of banking rate rises and reports of the likely imposition of a capital gains tax. The general index dropped 53.69 or 3.9 per cent to 1,331.04.

BUDAPEST gained a further 8 per cent, for a 15 per cent rise in two trading days, as the market recovered from last week's turmoil. The BUX index finished up 483.39 at 6,490.81, helped by a string of good corporate results and the weekend's referendum which came down in favour of Hungarian membership of Nato.

Written and edited by Michael Morgan, Jonathan Ford and Peter Hall.

São Paulo jumps 4.6%

SAO PAULO was buoyed by a positive performance in US and Asian markets.

The Bovespa index advanced to 9,131, up 4.6 per cent or 400 points. Volume was heavy at R$275m.

Telebras, the federal telecommunications company, climbed R$5 or 4.5 per cent to R$113.50.

Petrobras outperformed the broader market on a strong earnings report, released after the market closed on Friday. The oil group jumped 7.1 per cent or R$15 to R$226.99.

CARACAS also showed strong early gains, on the back of recovering world markets. By midday, the IBC index was up more than 4 per cent at 8,701.82 in low volume.

MEXICO CITY advanced on optimism about the economy following strong industrial production data, and the IPC index rose 102.30 or 2.3 per cent to 4,634.97.

Trading was light as foreign investors declined to join the rally, traders said. Turnover totalled 461m pesos on 22m shares traded.

FTSE Actuaries Share Indices — European series

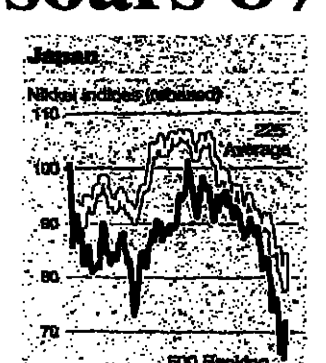
November 17

National & Regional Markets	Ecu Index	Day's %	change points	Yield gross %	xd adj	Total retn (Ecu)
FTSE Eurotop 300	917.55	+2.80	+25.00	2.45	1.08	923.40
FTSE Eurotop 100	2132.73	+2.42	+50.40	-	-	-
FTSE Eurotop 300 Regions						
300 UK	927.82	+2.86	+24.26	3.42	2.96	940.54
300 Ex-UK	912.21	+2.87	+25.45	1.89	0.00	914.25
300 Eurobloc	899.30	+3.24	+28.22	2.12	0.00	902.30
300 Ex-Eurobloc	931.37	+2.50	+22.73	2.66	1.86	938.31
FTSE Eurotop 300 Economic Groups						
Resources	934.67	+3.42	+30.94	2.92	0.00	947.68
General Industries	882.08	+3.18	+27.19	2.22	0.00	883.54
Consumer Goods	901.03	+2.68	+23.60	2.01	5.16	903.94
Services	947.72	+2.00	+18.58	2.33	0.62	953.69
Utilities	955.25	+2.28	+21.40	3.43	0.00	960.71
Financials	921.30	+2.80	+25.58	2.43	0.00	925.78

Base value 1000. More information on http://www.ftse.com. 'FTSE' and 'Footsie' are registered trade marks of the London Stock Exchange and The Financial Times. 'Eurotop' is a registered trade mark of the Amsterdam Stock Exchange. FTSE Eurotop indices are compiled by FTSE International. © FTSE International Limited 1997. All rights reserved.

Nikkei soars 8% as Seoul dives

ASIA PACIFIC



Bears took a beating in Tokyo yesterday, *writes Paul Abrahams*. The government's decision to allow Hokkaido Takushoku, Japan's 10th biggest bank, effectively to go bankrupt, combined with an unconfirmed report that the ruling Liberal Democratic party was looking at injecting between Y6,000bn and Y8,000bn into the financial system through the purchase of preference shares, sent the Nikkei up 1,200 points.

The benchmark Nikkei 225 index rose 8 per cent, or 1,200.8 points, to close at 16,283, the largest points gain on a single day since 1992 and the fourth largest percentage rise ever.

The banking sector led the way, up 11.7 per cent, while the securities sector added 10.6 per cent. Real estate also posted a double-digit increase at 10.7 per cent.

Hokkaido Takushoku was suspended at Y65. The finance ministry indicated that shareholders were unlikely to receive any of the proceeds from assets sales following the bank's bankruptcy. Sanwa gained 20 per cent at Y1,200, Sumitomo Bank 17 per cent to Y1,360 and Asahi Bank 17 per cent at Y600.

Among the brokers, Yamaichi was up 8 per cent at Y108 – a disappointment given the restructuring it announced over the weekend.

But Cosmo Securities, a troubled second-tier broker, was the first section's biggest riser, up 26 per cent at Y97. Wako Securities, another of the weaker brokers, climbed 17 per cent to Y283.

The Nikkei traded between 15,153 and 16,283. Turnover was heavy with 578m shares traded.

The recovery was broad based with the Topix index of the entire first section rising 80.33 – or 6.8 per cent – to 1,257. The Nikkei 300 leapt 16.9 or 7.4 per cent to 246.67.

In London, the ISE/Nikkei 50 index climbed 1.69 points to 1,442.81.

In Osaka, the OSE index closed up 948 at 17,008, on volume of 12.7m shares.

SEOUL dropped 4.3 per cent after the won plunged to an all-time low when the government abandoned its defence of the currency.

The composite index lost 22.39 to 496.98 and winning issues overwhelmed losers by 772 to 84 with 40 issues unchanged.

Analysts said that the Bank of Korea's apparent retreat from the foreign exchange market was a huge psychological setback to stock investors.

They added that retail client deposits at local broking firms had already begun to shrink as foreigners resumed their exodus from the market.

HONG KONG soared 4.6 per cent as the Nikkei's surge and easier interbank rates propelled the Hang Seng index to its third straight winning session. The blue-chip index soared 462.42 to end at 10,419.75, after a session high of 10,512.41. Turnover was little changed from Friday at HK$11.1bn.

MANILA picked up 2.6 per cent, riding the surge in regional markets and prompted by a cut in banks' liquidity reserves. The composite index ended 47.12 higher at 1,892.07.

Persistent talk of a foreign group buying into conglomerate San Miguel provided much of the action.

TAIWAN rose 2.7 per cent with some bargain-hunting seen among local investors. The weighted index ended 198.28 better at 7,690.54.

The electronics sector, whose fortunes tend to lead those of the whole market, surged by 4.5 per cent.

BANGKOK fell more than 3 per cent after a rash of poor corporate results alarmed investors.

The news prompted sharp falls in construction, communications and consumer shares, and the SET index fell 15 to 441.87.

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